REFINITIV

DELTA REPORT

10-Q

HGBL - HERITAGE GLOBAL INC.

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	826
CHANGES	258
DELETIONS	316
ADDITIONS	252

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, March 31, 2023 2024

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number: 001-39471

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HERITAGE GLOBAL INC.
(Exact name of registrant as specified in its charter)

FLORIDA	**59-2291344**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

12625 High Bluff Drive, Suite 305, San Diego, CA 92130
(Address of Principal Executive Offices)

(858) 847-0659
(Registrant's Telephone Number)

N/A
(Registrant's Former Name)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, $0.01 par value	HGBL	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	☐	Accelerated Filer	☐
Non-Accelerated Filer	☒	Smaller reporting company	☒
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

As of November 1, 2023 May 1, 2024, there were 37,151,924 37,341,185 shares of common stock outstanding, $0.01 par value.

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

Item 1 – Financial Statements.

HERITAGE GLOBAL INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands of US dollars, except share and per share amounts)

ASSETS	September 30, 2023 (unaudited)	December 31, 2022	March 31, 2024 (unaudited)	December 31, 2023
Current assets:				
Cash and cash equivalents	$ 15,578	$ 12,667	$ 15,577	$ 12,279
Accounts receivable, net	2,889	988		
Current portion of notes receivable, net	10,284	4,505		
Accounts receivable (net of allowance for credit losses of $126 in 2024 and $132 in 2023)			1,558	1,910
Current portion of notes receivable (net of allowance for credit losses of $643 in 2024 and $650 in 2023)			6,514	6,581
Inventory – equipment	4,446	4,619	4,735	5,074
Other current assets	681	1,113	490	448
Total current assets	33,878	23,892	28,874	26,292
Non-current portion of notes receivable, net	10,275	4,245	10,698	10,890
Equity method investments	16,131	13,973	20,271	21,361
Right-of-use assets	2,698	2,776	2,377	2,539
Property and equipment, net	1,728	1,571	1,684	1,705
Intangible assets, net	3,851	4,144	3,655	3,753
Goodwill	7,446	7,446	7,446	7,446
Deferred tax assets	8,363	9,449	8,637	9,115
Other assets	68	64	64	67
Total assets	$ 84,438	$ 67,560	$ 83,706	$ 83,168

LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable and accrued liabilities	$ 5,808	$ 8,924	$ 4,564	$ 7,237
Payables to sellers	10,184	3,188	6,816	4,975
Current portion of third party debt	3,303	3,411	1,765	1,733
Current portion of lease liabilities	783	703	779	789
Total current liabilities	20,078	16,226	13,924	14,734
Non-current portion of third party debt	5,941	871	5,040	5,495
Non-current portion of lease liabilities	2,021	2,164	1,710	1,859
Total liabilities	28,040	19,261	20,674	22,088
Stockholders' equity:				
Preferred stock, $10.00 par value, authorized 10,000,000 shares; issued and outstanding 563 and 565 shares of Series N as of September 30, 2023 and December 31, 2022, respectively; with liquidation preference over common stockholders equivalent to $1,000 per share	6	6		
Common stock, $0.01 par value, authorized 300,000,000 shares; issued 37,151,924 and 36,932,177 shares as of September 30, 2023 and December 31, 2022, respectively; and outstanding 36,908,456 and 36,688,709 shares as of September 30, 2023 and December 31, 2022, respectively	372	369		
Preferred stock, $10.00 par value, authorized 10,000,000 shares; issued and outstanding 563 of Series N as of March 31, 2024 and December 31, 2023; with liquidation preference over common stockholders equivalent to $1,000 per share			6	6
Common stock, $0.01 par value, authorized 300,000,000 shares; issued 37,336,392 and 37,157,616 shares as of March 31, 2024 and December 31, 2023, respectively; and outstanding 36,940,217 and 36,761,441 shares as of March 31, 2024 and December 31, 2023, respectively			373	372
Additional paid-in capital	294,331	293,589	294,674	294,522
Accumulated deficit	(237,916)	(245,270)	(231,227)	(233,026)
Treasury stock at cost, 243,468 shares as of September 30, 2023 and December 31, 2022	(395)	(395)		
Treasury stock at cost, 396,175 shares as of March 31, 2024 and December 31, 2023			(794)	(794)
Total stockholders' equity	56,398	48,299	63,032	61,080
Total liabilities and stockholders' equity	$ 84,438	$ 67,560	$ 83,706	$ 83,168

The accompanying notes are an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands of US dollars, except share and per share amounts)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended March 31,	
	2023	**2022**	**2023**	**2022**	**2024**	**2023**
Revenues:						
Services revenue	$ 9,985	$ 7,349	$ 30,040	$ 16,112	$ 8,983	$ 10,245
Asset sales	5,566	5,312	15,221	16,971	3,178	6,367
Total revenues	15,551	12,661	45,261	33,083	12,161	16,612
Operating costs and expenses:						
Cost of services revenue	2,423	2,051	6,570	3,715	1,480	2,340
Cost of asset sales	3,413	3,015	9,683	12,048	2,411	4,335
Selling, general and administrative	6,806	5,693	19,546	14,907	6,358	6,300
Depreciation and amortization	132	134	373	400	141	120
Total operating costs and expenses	12,774	10,893	36,172	31,070	10,390	13,095
Earnings of equity method investments	(8)	1,706	675	5,960	787	377
Operating income	2,769	3,474	9,764	7,973	2,558	3,894
Interest expense, net	(56)	(21)	(225)	(96)	(92)	(68)
Income before income tax expense	2,713	3,453	9,539	7,877	2,466	3,826
Income tax expense	736	1,153	1,954	2,354	667	997
Net income	$ 1,977	$ 2,300	$ 7,585	$ 5,523	$ 1,799	$ 2,829
Weighted average common shares outstanding – basic	36,742,018	36,084,696	36,675,838	36,014,439	36,592,801	36,005,150
Weighted average common shares outstanding – diluted	37,647,321	37,221,430	37,605,363	36,872,977	37,367,268	37,334,459
Net income per share – basic	$ 0.05	$ 0.06	$ 0.21	$ 0.15	$ 0.05	$ 0.08
Net income per share – diluted	$ 0.05	$ 0.06	$ 0.20	$ 0.15	$ 0.05	$ 0.08

The accompanying notes are an integral part of these condensed consolidated financial statements.

HERITAGE GLOBAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands of US dollars, except share amounts)
(unaudited)

	Preferred stock Shares	Preferred stock Amount	Common stock Shares	Common stock Amount	Additional paid-in capital	Accumulated deficit	Treasury stock Shares	Treasury stock Amount	Total	Preferred stock Shares	Preferred stock Amount	Common stock Shares	Common stock Amount	Additional paid-in capital	Accumulated deficit	Treasury stock Shares	Treasury stock Amount	Total
Balance as of December 31, 2022	565	$ 6	36,932,177	$ 369	$ 293,589	$ (245,270)	243,468	$ (395)	$ 48,299									
Cumulative change in accounting principle (Note 2)	—	—	—	—	—	(231)	—	—	(231)									
Balance as of January 1, 2023 (as adjusted for change in accounting principle)	565	6	36,932,177	369	293,589	(245,501)	243,468	(395)	48,068									
Balance as of December 31, 2023										563	$ 6	37,157,616	$ 372	$ 294,522	$ (233,026)	396,175	$ (794)	$ 61,080
Issuance of common stock from stock option awards	—	—	31,191	—	5	—	—	—	5	—	—	1,200	—	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	179	—	—	—	179	—	—	—	—	228	—	—	—	228

Issuance of restricted common stock	—	—	134,592	2	150	—	—	—	152	—	—	177,576	1	(76)	—	—	—	(75)
Net income	—	—	—	—	—	2,829	—	—	2,829	—	—	—	—	—	1,799	—	—	1,799
Balance as of March 31, 2023	565	6	37,097,960	371	293,923	(242,672)	243,468	(395)	51,233									
Issuance of common stock from stock option awards	—	—	32,111	—	5	—	—	—	5									
Stock-based compensation expense	—	—	—	—	228	—	—	—	228									
Issuance of restricted common stock	—	—	15,000	—	—	—	—	—	—									
Issuance of common stock due to conversion of Series N Preferred stock	(2)	—	80	—	—	—	—	—	—									
Net income	—	—	—	—	—	2,779	—	—	2,779									

	Preferred stock Shares	Preferred stock Amount	Common stock Shares	Common stock Amount	Additional paid-in capital	Accumulated deficit	Treasury stock Shares	Treasury stock Amount	Total
Balance as of June 30, 2023	563	6	37,145,151	371	294,156	(239,893)	243,468	(395)	54,245
Issuance of common stock from stock option awards	—	—	6,773	1	—	—	—	—	1
Stock-based compensation expense	—	—	—	—	175	—	—	—	175
Net income	—	—	—	—	—	1,977	—	—	1,977
Balance as of September 30, 2023	563	$ 6	37,151,924	$ 372	$ 294,331	$ (237,916)	243,468	$ (395)	$ 56,398
Balance as of March 31, 2024	563	$ 6	37,336,392	$ 373	$ 294,674	$ (231,227)	396,175	$ (794)	$ 63,032

	Preferred stock		Common stock		Additional paid-in	Accumulated	Treasury stock		
	Shares	Amount	Shares	Amount	capital	deficit	Shares	Amount	Total
Balance as of December 31, 2021	565	$ 6	36,574,702	$ 366	$ 293,030	$ (260,763)	$ —	$ —	$ 32,639
Issuance of common stock from stock option awards	—	—	103,135	1	(24)	—	—	—	(23)
Stock-based compensation expense	—	—	—	—	106	—	—	—	106
Net income	—	—	—	—	—	645	—	—	645
Balance as of March 31, 2022	565	6	36,677,837	367	293,112	(260,118)	—	—	33,367
Issuance of common stock from stock option awards	—	—	56,250	—	25	—	—	—	25
Stock-based compensation expense	—	—	—	—	108	—	—	—	108

	Preferred stock Shares	Preferred stock Amount	Common stock Shares	Common stock Amount	Additional paid-in capital	Accumulated deficit	Treasury stock Shares	Treasury stock Amount	Total
Repurchase of common stock	—	—	—	—	—	—	71,512	(105)	(105)
Net income	—	—	—	—	—	2,578	—	—	2,578
Balance as of June 30, 2022	565	6	36,734,087	367	293,245	(257,540)	71,512	(105)	35,973
Issuance of common stock from stock option awards	—	-	83,090	1	19	-	—	—	20
Issuance of restricted common stock	—	-	115,000	1	(1)	-	—	—	-
Stock-based compensation expense	—	—	—	—	170	—	—	—	170
Repurchase of common stock	—	—	—	—	-	—	112,187	(191)	(191)
Net income	—	—	—	—	—	2,300	—	—	2,300
Balance as of September 30, 2022	565	$ 6	36,932,177	$ 369	$ 293,433	$ (255,240)	183,699	$ (296)	$ 38,272

5

	Preferred stock		Common stock		Additional paid-in	Accumulated	Treasury stock		
	Shares	Amount	Shares	Amount	capital	deficit	Shares	Amount	Total
Balance as of December 31, 2022	565	$ 6	36,932,177	$ 369	$ 293,589	$ (245,270)	243,468	$ (395)	$ 48,299
Cumulative change in accounting principle (Note 2)	—	—	—	—	—	(231)	—	—	(231)
Balance as of January 1, 2023 (as adjusted for change in accounting principle)	565	6	36,932,177	369	293,589	(245,501)	243,468	(395)	48,068
Issuance of common stock from stock option awards	—	—	31,191	—	5	—	—	—	5
Issuance of restricted common stock	—	—	134,592	2	150	—	—	—	152
Stock-based compensation expense	—	—	—	—	179	—	—	—	179
Net income	—	—	—	—	—	2,829	—	—	2,829
Balance as of March 31, 2023	565	$ 6	37,097,960	$ 371	$ 293,923	$ (242,672)	243,468	$ (395)	$ 51,233

The accompanying notes are an integral part of these condensed consolidated financial statements.

65

HERITAGE GLOBAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of US dollars)
(unaudited)

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Cash flows provided by operating activities:				
Cash flows from operating activities:				
Net income	$ 7,585	$ 5,523	$ 1,799	$ 2,829

Adjustments to reconcile net income to net cash provided by operating activities:				
Amortization of deferred issuance costs and fees	76	125	3	34
Earnings of equity method investments	(675)	(5,960)	(787)	(377)
Noncash credit loss expense	632	—	(2)	102
Noncash lease expense	483	391	162	159
Depreciation and amortization	373	400	141	120
Deferred taxes	1,170	1,371	478	816
Stock-based compensation expense	582	384	228	179
Changes in operating assets and liabilities:				
Accounts receivable	(1,910)	1,062	347	(322)
Inventory – equipment	173	(1,602)	339	1,127
Other current assets	428	281	(39)	(26)
Accounts payable and accrued liabilities	(2,869)	1,530	(2,674)	(687)
Payables to sellers	6,996	(561)	1,841	5,145
Lease liabilities	(469)	(373)	(160)	(154)
Net cash provided by operating activities	12,575	2,571	1,676	8,945
Cash flows (used in) provided by investing activities:				
Cash flows from investing activities:				
Investment in notes receivable	(27,636)	(625)	(2,256)	(13,221)
Payments received on notes receivable	6,147	2,446	2,520	1,071
Cash received on transfer of notes receivable to partners	8,851	—	—	4,613
Investment in equity method investments	(6,465)	(8,068)	(193)	(512)
Return of investment in equity method investments	4,124	2,945	1,283	975
Cash distributions from equity method investments	675	7,266	787	377
Purchase of property and equipment	(237)	(94)	(22)	(89)
Net cash (used in) provided by investing activities	(14,541)	3,870		
Net cash provided by (used in) investing activities			2,119	(6,786)
Cash flows provided by (used in) financing activities:				
Cash flows from financing activities:				
Proceeds from debt payable to third parties	13,000	—	—	3,400
Repayment of debt payable to third parties	(8,039)	(2,307)	(422)	(2,403)
Proceeds from issuance of common stock from stock option awards	36	66	—	5
Payments of tax withholdings related to issuance of restricted common stock and stock option awards	(120)	(44)	(75)	(95)
Repurchase of common stock	—	(296)		
Net cash provided by (used in) financing activities	4,877	(2,581)		
Net cash (used in) provided by financing activities			(497)	907
Net increase in cash and cash equivalents	2,911	3,860	3,298	3,066
Cash and cash equivalents as of beginning of period	12,667	13,622	12,279	12,667
Cash and cash equivalents as of end of period	$ 15,578	$ 17,482	$ 15,577	$ 15,733
Supplemental cash flow information:				
Cash paid for taxes	$ 547	$ 276	$ (1)	$ —
Cash paid for interest	$ 323	$ 106	$ 92	$ 49
Noncash change in Right-of-use assets	$ 405	$ 630		
Noncash change in Lease liabilities	$ 405	$ 630		

The accompanying notes are an integral part of these condensed consolidated financial statements.

HERITAGE GLOBAL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note 1 –Basis of Presentation

These unaudited condensed consolidated interim financial statements include the accounts of Heritage Global Inc. ("HG") together with its subsidiaries, including Heritage Global Partners, Inc. ("HGP"), National Loan Exchange Inc. ("NLEX"), Heritage Global LLC ("HG LLC"), Heritage Global Capital LLC ("HGC"), and Heritage ALT LLC ("ALT"). These entities, collectively, are referred to as "HG, "the Company," the "Company," "us" "we" or "our" in these consolidated financial statements. These consolidated financial statements were prepared in conformity with generally accepted accounting principles in the United States of America ("GAAP"), as outlined in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") and include the assets, liabilities, revenues, and expenses of all subsidiaries over which HG exercises control. All significant intercompany accounts and transactions have been eliminated upon consolidation.

The Company began its operations in 2009 with the establishment of HG LLC. The business was subsequently expanded by the acquisitions of HGP, NLEX, and ALT in 2012, 2014, and 2021 respectively, and the creation of HGC in 2019. As a result, HG is positioned to provide an array of value-added capital and financial asset solutions: auction and appraisal services, traditional asset disposition sales, and specialty financing solutions. The Company's reportable segments consist of Auction and Liquidation, through HGP, Refurbishment & Resale, through ALT, Brokerage, through NLEX and Specialty Lending, through HGC.

The Company prepared the unaudited condensed consolidated interim financial statements included herein pursuant to the rules and regulations of the United States Securities and Exchange Commission (the "SEC"). In the opinion of management, these condensed financial statements reflect all adjustments that are necessary to present fairly the results for the interim periods included herein. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations; however, the Company believes that the disclosures are appropriate. These condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023, filed with the SEC on March 24, 2023 March 14, 2024 (the "Form 10-K").

The results of operations for the three and nine-month periods three-month period ended September 30, 2023 March 31, 2024 are not necessarily indicative of those operating results to be expected for any subsequent interim period or for the entire year ending December 31, 2023 December 31, 2024. The accompanying condensed consolidated balance sheet as of December 31, 2022 December 31, 2023 has been derived from the audited consolidated balance sheet as of December 31, 2022 December 31, 2023, contained in the Company's Form 10-K.

Repurchase Program

The Company's Board of Directors authorized a share repurchase program on May 5, 2022 ("2022 Repurchase Program"), which permits the Company to purchase up to an aggregate of $4.0 million in common shares over a three year period ending in June of 2025. As of September 30, 2023 March 31, 2024, the Company had approximately $3.6 3.2 million in remaining aggregate dollar value of shares that may be purchased under the program. There were no shares repurchased in the open market for the nine three months ended September 30, 2023 March 31, 2024.

Note 2 – Summary of Significant Accounting Policies

Use of estimates

The preparation of the Company's unaudited condensed consolidated interim financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Management bases its estimates and judgments on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

Significant estimates include the assessment of collectability of revenue recognized and the valuation of accounts receivable and notes receivable, inventory, investments, goodwill and intangible assets, liabilities, deferred income tax assets and liabilities, including projecting future years' taxable income, and stock-based compensation. These estimates have the potential to significantly impact our condensed consolidated interim financial statements, either because of the significance of the financial statement item to which they relate, or because they require judgment and estimation due to the uncertainty involved in measuring, at a specific point in time, events that are continuous in nature.

Reclassifications

Certain prior year balances within the condensed consolidated financial statements have been reclassified to conform to current year presentation.

Revenue recognition

The Company recognizes revenue in accordance with ASC Topic 606, *Revenue from Contracts with Customers* ("ASC 606") and ASC Topic 310, *Receivables* ("ASC 310").

Services revenue generally consists of commissions and fees from providing auction services, appraisals, brokering of sales transactions, and secured lending. Asset sales revenue generally consists of proceeds obtained through sales of purchased assets. With the exception of revenue generated within our Specialty Lending segment, revenue is recognized for both services revenue and asset sales revenue based on the ASC 606 standard recognition model, which consists of the following: (1) an agreement exists between two or more parties that creates enforceable rights and obligations, (2) the performance obligations are clearly identified, (3) the transaction price has been determined, (4) the transaction price has been properly allocated to each performance obligation, and (5) the entity satisfies a performance obligation by transferring a promised good or service to a customer for each of the entities.

All services and asset sales revenue from contracts with customers consists of three reportable segments: Auction and Liquidation, Refurbishment & Resale, and Brokerage. Generally, revenue is recognized at the point in time in which the performance obligation has been satisfied and full consideration is received. The exception to recognition at a point in time occurs when certain contracts provide for advance payments recognized over a period of time. Services revenue recognized over a period of time is not material in comparison to total revenues (less than 1% of total revenues for the nine three months ended September 30, 2023), March 31, 2024 and 2023), and therefore not reported on a disaggregated basis. Further, as certain contracts stipulate that the customer make advance payments, amounts not recognized within the reporting period are considered deferred revenue and the Company's "contract liability". The deferred revenue balance was approximately $0.6 0.3 million as of September 30, 2023 March 31, 2024 and $0.4 0.5 million as of December 31, 2022 December 31, 2023 and is reflected in accounts payable and accrued liabilities on the condensed consolidated balance sheets. The deferred revenue balance is primarily related to customer deposits on asset sales within the Refurbishment & Resale segment. The Company records receivables in certain situations based on timing of payments for Auction and Liquidation transactions held at the end of the reporting period; however, revenue is generally recognized in the period that the Company satisfies the performance obligation and cash is collected. The Company does not record a "contract asset" for partially satisfied performance obligations.

For auction services and brokerage sale transactions, funds are typically collected from buyers and are held by the Company on the seller's behalf. The funds are included in cash and cash equivalents in the condensed consolidated balance sheets. The Company releases the funds to the seller, less the Company's commission and other fees due, after the buyer has accepted the goods. The amount of cash held on behalf of the sellers is recorded as payables to sellers in the accompanying condensed consolidated balance sheets.

The Company evaluates revenue from Auction and Liquidation and Brokerage segment transactions in accordance with the accounting guidance to determine whether to report such revenue on a gross or net basis. The Company has determined that it acts as an agent for its fee based transactions and therefore reports the revenue from transactions in which the Company acts as an agent on a net basis.

The Company also earns income through transactions that involve the Company acting jointly with one or more additional purchasers or lenders, pursuant to a partnership, joint venture or limited liability company ("LLC") agreement (collectively, "Joint Ventures"). For these transactions, in which the Company's ownership share meets the criteria for the equity method investments under ASC Topic 323, *Equity Method and Joint Ventures*, the Company does not record revenue or expense. Instead, the Company's proportionate share of the net income (loss) is reported as earnings of equity method investments. In general, the Joint Ventures apply the same revenue recognition and other accounting policies as the Company.

Through our Specialty Lending segment, the Company provides specialty financing solutions to investors in charged-off and nonperforming asset portfolios. The Company recognizes revenue generated by lending activity in accordance with ASC 310. Fees collected in relation to the issuance of loans include loan origination fees, interest income, portfolio monitoring fees, and a backend profit share percentage related to the underlying asset portfolio.

The loan origination fees are offset with any direct origination costs and are deferred upon issuance of the loan and amortized over the lives of the related loans, as an adjustment to interest income. The interest method is used to arrive at a periodic interest cost (including amortization) that will represent a level effective rate on the sum of the face amount of the debt and (plus or minus) the unamortized premium or discount and expense at the beginning of each period.

The monitoring fees and the backend profit share are considered a separate earnings process as compared to the origination fees and interest income. Monitoring fees are recorded at the agreed upon rate, and at the moment in which payments are made by the borrower. The backend profit share is recognized in accordance with the agreed upon rate at the time in which the amount is realizable and earned. The recognition policy was established due to the uncertainty of timing of the amount of backend profit share which will be realized.

Specialty Lending - Concentration and credit risk

As of September 30, 2023 March 31, 2024, the Company held a gross balance of investments in notes receivable of $37.6 37.3 million, recorded in both notes receivable and equity method investments, and consisting of one borrower's note balance of approximately $21.8 23.4 million, or 58 63% as of September 30, 2023 March 31, 2024, down from as compared to 73 62% as of June 30, 2023 December 31, 2023. The Company does not intend to hold highly concentrated balances due from one borrower as part of its long-term strategy but may, in the short term, have concentration risk on its path to an established and diversified portfolio.

The Company does not evaluate concentration risk solely based on balance due from specific borrowers, but also considers the number of portfolio purchases, type of charged off accounts within the portfolio, and the seller of the portfolio when determining the overall risk. Of the balance due from one borrower of $21.8 23.4 million, there are 31 11 distinct loan agreements, the agreements. The underlying portfolio of accounts are diversified throughout FinTech loans, installment loans and credit card accounts, and further diversified amongst six separate sellers of these charged off portfolios.

The Company mitigates this concentration risk as follows. The Company requires, by requiring, and monitors, monitoring, security from each borrower consisting of their charged off and nonperforming receivable portfolios. The Company engages in a due diligence process that leverages its valuation expertise. expertise and knowledge in the underlying nonperforming receivable portfolios marketplace. In the event of default, the Company is entitled to call the unpaid interest and principal balances and receive all net collections directly. The Company may also recover its investment by engaging a third party to collect on the underlying charged off or nonperforming receivable portfolio or the underlying portfolio can be sold through the Company's Brokerage segment. In certain cases, the Company's recovery options may be subject to concurrence of the originator or other prior holder of the assets.

Currently, declining collections are being experienced industry-wide and are expected to continue in the short-term. While most of the Company's borrowers are still tracking to their collection forecasts, the Company's largest borrower has requested extended repayment terms due to declining collections. The Company is working with the borrower and its partners to finalize amended loan agreements. An amended loan agreement would allow the borrower to meet their minimum required payments over a longer repayment period with a higher interest rate. In the event that the borrower defaults on a loan, the Company expects to recoup the majority of principal and interest owed, albeit over a longer period and with more uncertainty than an amended loan agreement. Due to the inherent risks and uncertainty of this situation, the Company has increased its reserve for credit losses by $0.9 million to $1.4 million, or 3.8%.

From inception of the specialty lending program through September 30, 2023 March 31, 2024, the Company has incurred no actual credit losses.

Recently adopted accounting pronouncement

On January 1, 2023, the Company adopted ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASC 326"). ASC 326 requires the application of a credit loss model based prospectively on current expected credit losses (CECL), and replaces the previous model based retrospectively on past incurred losses.

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost, of which the Company reported only accounts receivable and notes receivable as of December 31, 2022. Results for reporting periods

beginning January 1, 2023 are presented under ASC 326, whereas prior periods continue to be reported under previously acceptable GAAP.

Accounts receivable are expected to be collected in less than one year and are therefore classified as current assets. Notes receivable are reported within current and non-current assets based upon the timing of expected collection. Management's intent is to hold notes receivable for the foreseeable future or until maturity or payoff.

The reserve for credit losses required by the adoption of ASC 326 is a valuation account that is deducted from (or added to) the accounts receivables and to the notes receivable's amortized cost basis in order to present on the condensed consolidated balance sheets the net amount expected to be collected. The credit loss expense, and subsequent adjustments to such losses, are recorded as a provision for (or reversal of) credit loss expense in the condensed consolidated statements of income.

Estimating future credit losses requires significant judgment by management. Significant judgments include, but are not limited to, assessing the debtors' current financial condition, assessing current economic conditions and the extent to which they are relevant to the existing characteristics of the Company's accounts and notes receivables, assessing the relevance of the estimated life of notes receivable, and determining the level of reliance on historical experience in light of economic conditions. The Company will continually review and update, when necessary, all such relevant judgments and assessments in determining the reserves for credit losses.

The Company previously estimated that the adoption of ASC 326 would result in an adjustment to accumulated deficit on January 1, 2023 of between $0.3 million and $0.4 million. Upon finalizing the execution of the implementation controls and processes, management arrived at a combined reserve for credit losses of $0.3 million for accounts receivable and notes receivable, offset by the cumulative income tax effect of $0.1 million. Consequently, the cumulative effect of the implementation of ASC 326 resulted in an adjustment to retained earnings of $0.2 million as of January 1, 2023. For additional information, see *Note 3 – Accounts Receivable, net* and *Note 4 – Notes Receivable, net.*

Reserve for Credit Losses - Accounts Receivable

The Company carries accounts receivable at the face amounts less a reserve an allowance for estimated credit losses. As of December 31, 2022, an allowance for doubtful accounts of $0.1 million had been recorded. Going forward, the The Company estimates its reserve for credit losses using relevant available information from internal and external sources relating to past events, current conditions and reasonable and supportable forecasts.

The Company only extends credit to entities and institutions of significance, such as well-known academic and financial institutions and US U.S. government agencies. Consequently, historical accounts receivable credit losses are nearly zero, which provides the starting point for management's assessment of the reserve for credit losses for its accounts receivable.

The Company elected to base estimates its estimation of expected credit losses for accounts receivable based on historical credit loss experience. However, in assessing relevant information including experience, its assessment of current conditions, management determined that and other relevant available information from internal and external sources on a credit loss allowance slightly higher than its historical data would indicate is appropriate for certain of its revenue generating activities. quarterly basis.

As of December 31, 2022 March 31, 2024 and under previously acceptable GAAP, the Company recorded a $0.1 million allowance for doubtful accounts for accounts receivable. Using a revised basis for estimation under ASC 326, the Company increased December 31, 2023, the reserve for credit losses against its related to accounts receivable balances by was approximately $10,000. Consequently, to reflect the cumulative effects of the adoption of ASC 326, the Company recorded an additional reserve for credit losses and an increase to accumulated deficit of approximately $10,000 on the January 1, 2023 condensed consolidated balance sheets, and the balance of the reserve for credit losses was therefore $0.1 million as of January 1, 2023. million.

Reserve for Credit Losses - Notes Receivable

Notes receivable are reported at amortized cost, net of a reserve for credit losses. Amortized cost is the principal balance outstanding, net of deferred fees and costs on originated loans. Non-performing notes receivable are charged off against the reserve when management has confirmed the note to be uncollectable. Expected recoveries do not exceed the aggregate of amounts previously charged off and expected to be charged off. No amounts were recorded as a reserve for credit losses to notes receivable as of December 31, 2022.

Under ASC 326, the Company elected to evaluate evaluates notes receivable as a single pool, for individual notes receivable and borrowers with similar risk characteristics. Notes receivable and borrowers that do not share risk characteristics are evaluated on an individual basis. Management estimates the reserve balance using relevant available information from internal and external sources relating to past events, current conditions and reasonable and supportable forecasts. Historical credit loss experience typically provides the basis for an estimation of expected credit losses; however, the Company lacks sufficient data upon which to base a historical estimation.

Additionally, since the Company began recording notes receivable on the condensed consolidated balance sheets, the Company has recorded no actual credit losses to notes receivable.

Lacking historical internal data upon which to base a reserve for credit losses to notes receivable, the Company, under ASC 326, elected to base estimates its reserve on using external credit loss experience data. Management observes that the Company's notes receivable are similar in character to transactions undertaken by smaller banking institutions. The Company elected to base estimates its estimation of expected credit losses based on the Scaled Current Expected Credit Loss (CECL) Allowance Loss Estimator ("SCALE rate") available from the Federal Reserve, which was 1.3205% as of December 31, 2022. Reserve. The SCALE rate methodology is endorsed by the FASB and the Conference of State Bank Supervisors. Management determined under ASC 326 that the SCALE rate, a generally applicable rate, may be appropriately adjusted by its assessment of observable facts and relevant circumstances indicating that the factors analyzed in the determination of the SCALE rate may not conform to the Company's operations and borrower assessments. However, in conducting its assessment of these factors, management concluded that no adjustment to the SCALE rate is warranted as of December 31, 2022.

As of December 31, 2022 March 31, 2024, the SCALE rate was 1.3861% and under previously acceptable GAAP, the Company recorded no reserve Company's credit loss allowance rate specific to notes receivable was 3.6%. The increase over the SCALE rate was due to both the above mentioned risks presented by a concentrated balance with a single borrower and declining collections industry-wide. As of March 31, 2024 and December 31, 2023, the Company's allowance for credit losses related to notes receivable.

Using receivable outstanding was $0.6 million and $0.7 million, respectively. In order to evaluate the need for an adjustment to the receivable balance related to credit losses, or impairment, the Company performs a revised review of all outstanding loan receivables on a quarterly basis to determine if any indicators exist that suggest the loan will not be fully recoverable and assess the credit quality of the loan receivables. This review includes monthly and cumulative key performance indicators for estimation under ASC 326, management determined each loan and borrower, as well as evaluation of borrower's financial condition.

Equity method investments

Similar to notes receivable, the cumulative reserve loans held by the joint ventures are evaluated on a quarterly basis to determine if an adjustment to the allowance for credit losses is needed.

As of $ March 31, 2024, the SCALE rate was 0.2 1.3861 million % and the credit loss allowance rate specific to equity method investments was appropriate for notes receivable recorded on 4.4%. The increase over the condensed consolidated SCALE rate was due to both the above mentioned risks presented by a concentrated balance sheet as with a single borrower and declining collections industry-wide. As of December 31, 2022. Consequently, to reflect March 31, 2024 and December 31, 2023, the cumulative effects of the adoption of ASC 326, the Company recorded the reserve Company's allowance for credit losses and an increase related to accumulated deficit of its equity method investments was $0.2 0.9 million million.

Future accounting pronouncements

In November 2023, the Financial Accounting Standards Board ("FASB") issued ASU 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures" ("ASU 2023-07"), which, among other updates, requires enhanced disclosures about significant segment expenses regularly provided to the chief operating decision maker, as well as the aggregate amount of other segment items included in the reported measure of segment profit or loss. ASU 2023-07 is effective for fiscal years beginning after December 15, 2023, and for interim periods within fiscal years beginning after December 15, 2024, and requires retrospective adoption. Early adoption is permitted. The Company is evaluating the impact of ASU 2023-07 on its consolidated financial statements and the January 1, 2023 condensed related disclosures.

In December 2023, the FASB issued ASU 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures" ("ASU 2023-09"), which requires enhanced annual disclosures with respect to the rate reconciliation and income taxes paid information. ASU 2023-09 is effective for fiscal years beginning after December 15, 2024, and may be adopted on a prospective or retrospective basis. Early adoption is permitted. The Company is evaluating the impact of ASU 2023-07 on its consolidated balance sheet, financial statements and balance of the reserve for credit losses was therefore $0.2 million as of January 1, 2023. related disclosures.

Note 3 – Accounts Receivable, net

The Company's accounts receivable, net consists of accounts receivables recorded in the ordinary course of business associated with the recognition of revenue from contracts with customers. As of December 31, 2022, accounts receivable, net recorded on the consolidated balance sheet was $1.0 million, consisting of accounts receivable of $1.1 million offset by an allowance for doubtful accounts of $0.1 million. On January 1 2023, the Company recorded an additional reserve for credit losses for accounts receivable in accordance with ASC 326, as described in *Note 2 – Summary of Significant Accounting Policies, Recently Adopted Accounting Pronouncement.* The cumulative effect as of December 31, 2022 of the modified retrospective method of adoption of ASC 326 required the Company to record on the consolidated balance sheets as of January 1, 2023 an additional reserve to accounts receivable for credit losses of approximately $10,000 for the estimated credit losses attributable to accounts receivable as of December 31, 2022.

The following presents the adjustment to accounts receivable, net as a result of the implementation of ASC 326 on January 1, 2023 (in thousands):

Accounts receivable as of December 31, 2022	$	1,110
Allowance for doubtful accounts as of December 31, 2022		(122)
Cumulative effect of the implementation of ASC 326		(10)
Beginning balance of reserve for credit losses as of January 1, 2023		(132)
Accounts receivable, net of reserve for credit losses as of January 1, 2023	$	978

In accordance with ASC 326, the Company performs a review of accounts receivables on a quarterly basis. During the nine three months ended September 30, 2023 March 31, 2024, the Company recorded no material adjustments for credit losses in selling, general and administrative expense on the condensed consolidated statement of income related to accounts receivable. As of September 30, 2023 March 31, 2024 and December 31, 2023, the reserve for credit losses was approximately $0.1 million.

Note 4 – Notes Receivable, net

The Company's notes receivable, net consists of investments in loans to buyers of charged-off and nonperforming receivable portfolios. As of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, the Company's outstanding notes receivables, net of unamortized deferred fees and costs on originated loans, and adjusted for the reserve for credit losses was $20.6 17.2 million and $8.6 17.5 million, respectively. The activity during the nine three months ended September 30, 2023 March 31, 2024 includes the additional investment in notes receivable of approximately $27.6 2.3 million, which was offset by principal payments made by borrowers of approximately $6.1 million, the transfer of notes to partners of approximately $8.9 million, adjustments to the deferred fees and costs balance and the reserve for credit losses totaling approximately $0.6 2.5 million.

On January 1, 2023, the Company recorded an allowance for credit losses for notes receivable in accordance with ASC 326, as described in *Note 2 – Summary of Significant Accounting Policies, Recently Adopted Accounting Pronouncement*. The cumulative effects as of December 31, 2022 of the modified retrospective method of adoption of ASC 326 required the Company to record on the condensed consolidated balance sheets as of January 1, 2023 a reserve for credit losses to notes receivable of $0.1 million for the estimated credit losses to notes receivable as of December 31, 2022.

The following presents table below shows the adjustment to notes receivable, net Company's lending activity as a result of the implementation of ASC 326 on January 1, 2023 March 31, 2024 (in thousands):

Notes receivable, net as of December 31, 2022	$	8,750
Reserve for credit losses of December 31, 2022		—
Cumulative effect of the implementation of ASC 326		(119)
Beginning balance of reserve for credit losses as of January 1, 2023		(119)
Notes receivable, net of reserve for credit losses as of January 1, 2023	$	8,631

		March 31, 2024
Notes receivable as of December 31, 2023	$	18,262
Investment in notes receivable		2,256
Transfer of notes		—
Principal repayments		(2,520)
Notes receivable, as of March 31, 2024		17,998
Deferred financing fees and costs, net		(143)
Allowance for credit loss		(643)
Notes receivable, net, March 31, 2024	$	17,212

In accordance with ASC 326, the Company performs a review of notes receivable on a quarterly basis. During the nine three months ended September 30, 2023 March 31, 2024, the Company recorded ano material adjustments to the provision for credit losses in selling, general and administrative expense on the condensed consolidated statement of income of approximately $0.6 million. income. As of September 30, 2023 March 31, 2024 and December 31, 2023, the reserve allowance for credit losses was approximately $0.6 million and $0.7 million. The provision for credit losses was primarily driven by weakening economic conditions for the underlying charged-off and nonperforming portfolio collections and increases in loan balances. As of September 30, 2023, the Company has recorded no actual credit losses on notes receivable. million, respectively.

13

Note 5 – Stock-based Compensation

As of September 30, 2023 March 31, 2024, the Company had four stock-based compensation plans, which are described more fully in *Note 17 16 – Stockholders' Equity - Stock-Based Compensation Plans* of the Company's audited consolidated financial statements for the year ended December 31, 2022 December 31, 2023 contained in the Company's Form 10-K.

At the Company's 2022 Annual Meeting of Shareholders, the Company's shareholders approved the 2022 Heritage Global Inc. Equity Incentive Plan, which replaces replaced the Heritage Global Inc. 2016 Plan, and authorized the issuance of an aggregate of 3.5 million shares of common stock for awards made after June 8, 2022.

Stock Options

During the nine three months ended September 30, 2023 March 31, 2024, the Company issued options to purchase 430,000 20,000 shares of common stock to certain of the Company's employees. During the same period, the Company canceled 71,750 12,750 options to purchase common stock as a result of employee resignations.

The following summarizes the changes in common stock options for the nine three months ended September 30, 2023 March 31, 2024:

	Options	Weighted	Weighted	Aggregate

		Average Exercise Price	Average Remaining Contractual Term (Years)	Intrinsic Value (In thousands)
Outstanding as of December 31, 2022	2,027,350	$ 1.38	7.3	$ 2,112
Granted	430,000	$ 2.87		
Exercised	(88,375)	$ 0.76		
Forfeited	(71,750)	$ 2.05		
Outstanding as of September 30, 2023	2,297,225	$ 1.66	6.9	$ 3,410
Options exercisable as of September 30, 2023	1,286,600	$ 1.02	5.7	$ 3,246

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (In thousands)
Outstanding as of December 31, 2023	2,265,350	$ 1.71	6.8	$ 3,059
Granted	20,000	$ 2.93		
Exercised	(3,750)	$ 1.87		
Forfeited	(12,750)	$ 1.87		
Outstanding as of March 31, 2024	2,268,850	$ 1.72	6.5	$ 2,322
Options exercisable as of March 31, 2024	1,363,975	$ 1.25	5.4	$ 1,936

The Company recognized stock-based compensation expense related to common stock options of $0.6 0.1 million and $0.3for both the nine three months ended September 30, 2023 March 31, 2024 and 2022, respectively. 2023. As of September 30, 2023 March 31, 2024, there was approximately $1.4 1.3 million of unrecognized stock-based compensation expense related to unvested common stock options outstanding, which is expected to be recognized over a weighted average period of 2.5 2.3 years.

Restricted Stock

Restricted stock awards represent a right to receive shares of common stock at a future date determined in accordance with the participant's award agreement. There is no exercise price and no monetary payment required for receipt of restricted stock awards or the shares issued in settlement of the award. Instead, consideration is furnished in the form of the participant's services to the Company. Compensation cost for these awards is based on the fair value of the shares of common stock on the date of grant and recognized as compensation expense on a straight-line basis over the requisite service period.

On June 1, 2018, the Company granted 600,000 shares of Company restricted common stock in connection with the Addendum to the Employment Agreements of David Ludwig and Tom Ludwig. The shares were subject to certain restrictions on transfer and a right of repurchase over five years. The shares fully vested as of in full on May 31, 2023.

On March 30, 2021, the Company and Scott West entered into a Separation Agreement and General Release (the "Separation Agreement"). Under the terms of the Separation Agreement, Mr. West's separation from the Company was effective on March 31, 2021. On April 8, 2021, the Company granted 25,000 shares of the Company's restricted common stock, for which the risk of forfeiture lapsed on April 8, 2023. In addition, the Separation Agreement provides for customary mutual releases by the Company and Mr. West, and the Separation Agreement includes confidentiality, non-disparagement and other obligations. The full amount of the restricted common stock was expensed as of March 31, 2021 and fully vested as of April 8, 2023.

On August 3, 2022, the Company granted 115,000 shares of Company restricted common stock to non-executive directors under the 2022 Heritage Global Inc. Equity Incentive Plan. Of these restricted stock shares granted during 2022, 40,000 shares were granted with a vesting term that was completed prior to the grant date due to a delay in the Company's ability to grant such shares, and the remaining 75,000 shares vested in full on March 31, 2023.

On March 1, 2023, the Company granted 97,290 shares of Company restricted common stock to employees under the 2022 Heritage Global Inc. Equity Incentive Plan. The restricted stock shares vest vested in full on March 1, 2024.

On March 31, 2023, the Company granted 75,000 shares of Company restricted common stock to non-executive directors under the 2022 Heritage Global Inc. Equity Incentive Plan. The restricted stock shares vest vested in full on March 31, 2024. During the quarter ended September 30, 2023 March 31, 2024, the Company canceled 15,000 restricted stock awards in connection with the resignation of a member of the Company's Board of Directors.

On April 1, 2023, the Company granted 15,000 shares of Company restricted common stock to one non-executive director under the 2022 Heritage Global Inc. Equity Incentive Plan. The restricted stock shares vested in full on April 1, 2024.

On March 7, 2024, the Company granted 128,044 shares of Company restricted common stock to employees under the 2022 Heritage Global Inc. Equity Incentive Plan. The restricted stock shares vest on April 1, 2024 March 7, 2025.

On March 7, 2024, the Company granted 75,000 shares of Company restricted common stock to non-executive directors under the 2022 Heritage Global Inc. Equity Incentive Plan. The restricted stock shares vest on March 7, 2025.

The Company determined the fair value of the shares awarded by using the closing price of our common stock as of the grant date. Stock-based compensation expense related to the restricted stock awards was approximately $0.1 million for both the nine three months ended September 30, 2023 March 31, 2024 and 2022. 2023. The unrecognized stock-based compensation expense as of September 30, 2023, March 31, 2024 was approximately $0.2 0.5 million.

Note 6 – Equity Method Investments

In November 2018, CPFH LLC, of which the Company holds a 25%25% share, was formed to purchase certain real estate assets among partners in a joint venture. In March 2020, HGC Origination I LLC and HGC Funding I LLC were formed as joint ventures with a partner for purposes of conducting business relating to the sourcing, origination and funding of loans to debt purchasing clients. In April 2022, KNFH LLC, of which the Company holds a 25%25% share, was formed to purchase certain real estate assets and machinery and equipment among partners in a joint venture. In December 2022, DHC8 LLC, of which the Company holds a 13.33%13.33% share was formed to provide funding and receive principal and interest payments as a result of the initial investment. In May 2023, HGC MPG Funding LLC,of which the Company holds a 25%25% share, was formed as a joint venture with a partner for purposes of conducting business relating to the sourcing, origination and funding of loans to debt purchasing clients. In December 2023, KNFH II LLC, of which the Company holds a 25% share, was formed to purchase certain real estate assets and machinery and equipment among partners in a joint venture. CPFH LLC, KNFH LLC, DHC8 LLC and DHC8 KNFH II LLC are joint ventures formed in connection with the Company's Industrial Assets Division, division, whereas HGC Origination I LLC, HGC Funding I LLC, and HGC MPG Funding LLC were formed in connection with the Financial Assets Division. division. The Company has significant influence over the operations and financial policies of each of its equity method investments.

In accordance with ASC 326, the Company performs a review of notes receivable on a quarterly basis for each of its specialty lending investments. During the nine three months ended September 30, 2023 March 31, 2024, the Company's Company recorded no material adjustments for its share of the joint venture's reduction to the provision for credit losses. As of March 31, 2024, the Company's share of the allowance for credit losses was approximately $0.5 million. As of September 30, 2023, the Company's share of the reserve for credit losses was approximately $0.7 0.9 million, which was primarily related to HGC Origination I LLC and HGC MPG Funding LLC. The provision for credit losses was primarily driven by weakening economic conditions for the underlying charged-off and nonperforming portfolio collections and increases in loan balances. As of September 30, 2023 March 31, 2024, the Company has recorded incurred no actual credit losses through its equity method investments.

Based on the nature of our equity method investments, the joint venture entities' revenues and gross profit are not materially different and furthermore, operating income and net income have no material differences. The table below details the Company's joint venture revenues and earnings during the nine three months ended September 30, 2023 March 31, 2024 and 2022 2023 (in thousands):

	Nine Months Ended September 30,		March 31,	
	2023	2022	2024	2023
Revenues:				
CPFH LLC	$ —	$ 31,072		
Revenues and gross profit:				
KNFH LLC	303	16,882	$ —	$ 440
DHC8 LLC	1,183	—	321	445
KNFH II LLC			—	—
HGC Origination I LLC and HGC Funding I LLC	3,769	1,611	1,140	1,297
HGC MPG Funding LLC	552	—	1,241	—
Total revenues	$ 5,807	$ 49,565		
Total revenues and gross profit			$ 2,702	$ 2,182

Operating income (loss):				
CPFH LLC	$ —	$ 15,357		
Operating income (loss) and net income (loss):				
KNFH LLC	(144)	6,915	—	(10)
DHC8 LLC	1,009	—	268	378
KNFH II LLC			(44)	—
HGC Origination I LLC and HGC Funding I LLC	2,374	1,589	1,134	1,304
HGC MPG Funding LLC	548	—	1,241	—
Total operating income	$ 3,787	$ 23,861		
Total operating income and net income			$ 2,599	$ 1,672

The table below details the summarized components of assets and liabilities of the Company's joint ventures, as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 (in thousands):

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Assets:				
KNFH LLC	$ 294	$ —	$ —	$ 292
DHC8 LLC	7,497	8,561	4,700	7,061
KNFH II LLC			8,306	8,150
HGC Origination I LLC and HGC Funding I LLC	43,412	53,385	27,174	28,389
HGC MPG Funding LLC	18,402	—	36,413	38,081
Total assets	$ 69,605	$ 61,946	$ 76,593	$ 81,973
Liabilities:				
KNFH LLC	$ 285	$ 47	$ —	$ 289
DHC8 LLC	1,144	1,028	1,080	1,102
KNFH II LLC			4,000	4,000
HGC Origination I LLC and HGC Funding I LLC	—	1,504	1,244	10
HGC MPG Funding LLC	—	—	—	—
Total liabilities	$ 1,429	$ 2,579	$ 6,324	$ 5,401

Note 7 – Earnings Per Share

The Company is required, in periods in which it has net income, to calculate basic earnings per share ("basic EPS") using the two-class method. The two-class method is required because the Company's shares of Series N preferred stock, each of which is convertible to 40 common shares, have the right to receive dividends or dividend equivalents should the Company declare dividends on its common stock. Under the two-class method, earnings for the period are allocated on a pro-rata basis to the common and preferred stockholders. The weighted-average number of common and preferred shares outstanding during the period is then used to calculate basic EPS for each class of shares. For the three months ended September 30, 2023 March 31, 2024 and 2022, 2023, the earnings allocated to the outstanding preferred shares were not material.

In periods in which the Company records a net loss, basic loss per share is calculated by dividing the loss attributable to common stockholders by the weighted-average number of common shares outstanding during the period. As the preferred stock does not participate in losses, the two-class method is not used in periods in which the Company records a net loss.

Stock options and other potential common shares are included in the calculation of diluted earnings per share ("diluted EPS"). In calculating diluted EPS, such shares are assumed to be exercised or converted, except when their effect would be anti-dilutive.

The table below shows the calculation of the number of shares used in computing diluted EPS:

	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended March 31,	
	2023	2022	2023	2022	2024	2023
Basic weighted average shares outstanding	36,742,018	36,084,696	36,675,838	36,014,439	36,592,801	36,005,150
Treasury stock effect of common stock options and restricted stock awards	905,303	1,136,734	929,525	858,538	774,467	1,329,309
Diluted weighted average common shares outstanding	37,647,321	37,221,430	37,605,363	36,872,977	37,367,268	37,334,459

For the nine three months ended September 30, 2023 March 31, 2024 and 2022, 2023, there were potential common shares of 0.2 million and 00.9 million, respectively, that were excluded from the computation of diluted EPS, as the inclusion of such common shares would have been anti-dilutive. For the three months ended September 30, 2023 and 2022 there were potential common shares of 0.2 million and 0.8.3 million, respectively, that were excluded from the computation of diluted EPS, as the inclusion of such common shares would have been anti-dilutive.

Note 8 – Leases

The Company leases office and warehouse space in four locations: Del Mar, California, Hayward, California, San Diego, California and Edwardsville, Illinois. The Company determined that all of its lease arrangements are classified as operating leases.

On August 12, 2022, the Company entered into an agreement with Liberty Industrial Park, LLC pursuant to which the Company leases 6,627 square feet of industrial space in San Diego, California. The lease has a commencement date of the lease was September 1, 2022. It provides for an initial monthly base rent of $11,266, which increases on an annual basis to $13,180 per month in the final year. In addition, the Company is obligated to pay its share of maintenance costs of common areas.

On June 1, 2023, the Company amended its Edwardsville office building lease with David Ludwig, extending the term of the agreement to May 31, 2027 and setting rent amounts for the new term. It provides for an initial monthly base rent of $9,412, which increases on an annual basis to $9,914 per month in the final year.

The right-of-use assets and lease liabilities for each lease location are as follows (in thousands):

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Right-of-use assets:				
Del Mar, CA	$ 224	$ 336	$ 147	$ 186
Hayward, CA	1,595	1,800	1,455	1,525
San Diego, CA	506	590	447	477
Edwardsville, IL	373	50	328	351
Total right-of-use assets	$ 2,698	$ 2,776	$ 2,377	$ 2,539
Lease liabilities				
Del Mar, CA	$ 243	$ 360	$ 161	$ 203

Hayward, CA	1,661	1,852	1,527	1,594
San Diego, CA	526	605	470	498
Edwardsville, IL	374	50	331	353
Total lease liabilities	$ 2,804	$ 2,867	$ 2,489	$ 2,648

The Company's leases generally do not provide an implicit rate, and, therefore, the Company uses its incremental borrowing rate as the discount rate when measuring operating lease liabilities. The incremental borrowing rate represents an estimate of the interest rate the Company would incur at lease commencement to borrow an amount equal to the lease payments on a collateralized basis over the term of a lease within a particular currency environment. The Company used its incremental borrowing rate as of January 1, 2019 for operating leases that commenced prior to that date. As of January 1, 2019, the Company's incremental borrowing rate was 5.25%. For leases commencing after January 1, 2019 the Company uses its incremental borrowing rate at time of commencement. On September 1, 2022 and June 1, 2023, the Company's incremental borrowing rate was 5.50%. and 7.25%, respectively. The weighted average remaining lease term for operating leases is 4.4 3.9 years and the weighted average discount rate is 5.35% as of September 30, 2023 March 31, 2024.

Lease expense is recognized on a straight-line basis over the lease term. For the nine three months ended September 30, 2023 March 31, 2024 and 2022, March 31, 2023, lease expense was approximately $0.6 0.2 million and $0.5 million, respectively. million. As of September 30, 2023 March 31, 2024, undiscounted future minimum lease payments related to leases that have initial or remaining lease terms in excess of one year are as follows (in thousands):

2023 (remainder of year from October 1, 2023 to December 31, 2023)	$ 193	
2024	789	
2024 (remainder of year from April 1, 2024 to December 31, 2024)		$ 594
2025	662	661
2026	649	649
2027	546	543
Thereafter	312	
2028		299
Total undiscounted future minimum lease payments	3,151	2,746
Less: imputed interest	(347)	(257)
Present value of lease liabilities	$ 2,804	$ 2,489

Note 9 – Intangible Assets and Goodwill

Intangible assets

The Company's identifiable intangible assets are associated with its acquisitions of HGP in 2012, NLEX in 2014 and ALT in 2021, as shown in the table below (in thousands except for lives), and are amortized using the straight-line method over their remaining estimated useful lives. The Company's tradename that was acquired as part of the acquisition of NLEX in 2014 has an indefinite life and therefore is not amortized.

	Remaining Life (years)	**Carrying Value December 31, 2022**	**Amortization**	**Carrying Value September 30, 2023**	**Remaining Life (years)**	**Carrying Value December 31, 2023**	**Amortization**	**Carrying Value March 31, 2024**
Amortizable intangible assets:								

Trade Name (HGP)	1.3	$ 257	$ (96)	$ 161	0.8	$ 128	$ (32)	$ 96
Trade Name (ALT)	17.9	607	(24)	583	17.4	575	(8)	567
Vendor Relationship (ALT)	2.9	843	(173)	670	2.4	613	(58)	556
Total amortizable intangible assets		1,707	(293)	1,414		1,316	(98)	1,218
Indefinite-lived intangible assets:								
Trade Name (NLEX)	N/A	2,437	—	2,437	N/A	2,437	—	2,437
Total intangible assets		$ 4,144	$ (293)	$ 3,851		$ 3,753	$ (98)	$ 3,655

Amortization expense during the nine three months ended September 30, 2023 March 31, 2024 and 2022 2023 was $0.3 0.1 million. The Company estimates that the residual value for intangible assets is not significant.

As of September 30, 2023 March 31, 2024, the estimated amortization expense for the remainder of the current fiscal year and the next five fiscal years and thereafter is shown below (in thousands):

Year	Amount	Amount
2023 (remainder of year from October 1, 2023 to December 31, 2023)	$ 98	
2024	391	
2024 (remainder of year from April 1, 2024 to December 31, 2024)		$ 293
2025	263	263
2026	186	186
2027	33	32
2028		32
Thereafter	443	412
Total estimated amortization expense	$ 1,414	$ 1,218

Goodwill

The Company's goodwill relates to its acquisition of various entities. Goodwill consists of the following at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 (in thousands):

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
ALT	$ 1,861	$ 1,861	$ 1,861	$ 1,861
HGP	2,041	2,041	2,041	2,041
NLEX	3,544	3,544	3,544	3,544
Total goodwill	$ 7,446	$ 7,446	$ 7,446	$ 7,446

There were no additions to goodwill and no impairments recorded to the carrying value of goodwill during the nine three months ended September 30, 2023 March 31, 2024.

Note 10 – Debt

Outstanding debt as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 is summarized as follows (in thousands):

	September 30, 2023	December 31, 2022
Third party debt, current	$ 3,303	$ 3,411

Third party debt, non-current	5,941	871
Total third party debt	$ 9,244	$ 4,282

	March 31, 2024	**December 31, 2023**
Current:		
ALT Note	$ 515	$ 511
2021 Credit Facility	-	-
2023 Credit Facility	1,250	1,222
Total third party debt, current	1,765	1,733
Non-current:		
ALT Note	265	395
2023 Credit Facility	4,775	5,100
Total third party debt, non-current	5,040	5,495
Total third party debt	$ 6,805	$ 7,228

2021 Credit Facility

On May 5, 2021, the Company entered into a promissory note, business loan agreement, commercial security agreement and pledge agreement (the “2021 Credit Facility”) with C3bank, National Association ("Lender") for a $10.0 million revolving line of credit. The Company is permitted to use the proceeds of the loan solely for its business operations. The Company is the borrower under the 2021 Credit Facility. The 2021 Credit Facility is secured by a security interest in certain of the Company’s subsidiaries’ current and future tangible and intangible assets, inventory, chattel paper, accounts, equipment and general intangibles, and a pledge of the equity of the direct and indirect subsidiaries of the Company.

On August 23, 2022, the Company entered into a Loan Modification Agreement and Reaffirmation of Loan (the “2022 Modification Agreement”), effective as of April 1, 2022, by and between the Company and Lender. The 2022 Modification Agreement modified and reaffirmed the 2021 Credit Facility to provide for, among other things, the arrangement of financial covenants, which remained unchanged, into two categories: (i) financial covenants used to resize the maximum principal amount available to the Company as of the date of determination (as determined by Lender in its sole discretion), and (ii) financial covenants to be maintained by the Company.

On May 26, 2023, the Company entered into a Loan Modification Agreement and Reaffirmation of Loan (the “Modification Agreement”), effective as of May 26, 2023, by and between the Company and Lender. The Modification Agreement modifies and reaffirms the 2021 Credit Facility to, among other things, extend the maturity date, modify the applicable interest rate, and further modify the loan covenants. The maturity date was modified to October 27, 2024October 27, 2024. The applicable interest rate spread and floor was modified to be the Wall Street Journal Prime rate plus 1.00% (such rate not to be less than 6.75% per annum). Additionally, the Modification Agreement modifies the loan covenants to provide that the Company shall pay the Lender an annual unused line fee, payable on the earlier of (a) bi-annually every six (6) months in arrears, within ten (10) days thereof, commencing on October 27, 2023, or (b) the payment in full of the 2021 Credit Facility, but only if the average balance of the 2021 Credit Facility for the respective nine six months is below $5.0 million. The availability of additional draws under the 2021 Credit Facility is conditioned, among other things, on the compliance with certain customary representations and warranties, including default, insolvency or bankruptcy, material adverse change in financial condition and any guarantor’s attempt to revise its guarantee. The agreement governing the 2021 Credit Facility also contains customary affirmative covenants regarding, among other things, the maintenance of records, maintenance of certain insurance coverage, compliance with governmental requirements and maintenance of several financial covenants. The 2021 Credit Facility contains certain customary financial covenants and negative covenants that, among other things, include restrictions on the Company’s ability to create, incur or assume indebtedness for borrowed money, including capital leases or to sell, transfer, mortgage, assign, pledge, lease, grant a security interest in, or encumber any of the Company’s assets. As of September 30, 2023 March 31, 2024, the Company was in compliance with all financial and negative covenants. As of September 30, 2023 March 31, 2024, the there was no outstanding balance on the 2021 Credit Facility Facility.

The Company's weighted average interest rate on short-term borrowings as of March 31, 2024 and December 31, 2023 was $1.6 8.75 million. % and 9.51%, respectively.

ALT Note

On August 23, 2021, the Company entered into a $2.0 million subordinated promissory note with an interest rate of 3% per annum and a maturity date of August 23, 2025 (the “ALT Note”) as part of the aggregate purchase price paid to acquire certain assets and liabilities of American Laboratory Trading. The ALT Note requires 48 equal installments of approximately $44,000 on the first day of each month beginning September 23, 2021 with the final payment due on August 23, 2025. The outstanding balance of the ALT Note as of September 30, 2023 March 31, 2024 was $1.0 0.8 million.

19

2023 Credit Facility

On May 26, 2023, the Company entered into a promissory note, a business loan agreement and commercial security agreement (collectively, the “2023 Credit Facility”) with C3 Bank. The 2023 Credit Facility provides for a new $7.0 million term loan (the "Term Loan") which is repayable in monthly installments of principal and interest until the maturity date of April 27, 2028. The Company is permitted to use determines the proceeds current portion of the Term Loan solely for its business operations. The maturity date to be the amount of principal owed in the Term Loan is April 27, 2028. next 12 months. The Term Loan sets the interest rate spread and interest rate floor to accrue at a variable interest rate, which is based on the rate of interest last quoted by The Wall Street Journal as the “prime rate,” plus a margin of 0.250%. Additionally, the Term Loan provides that in the event of prepayment the Company shall pay the Lender a prepayment fee during the first year equal to twelve months of interest (less interest actually paid). The Company is the borrower under the Term Loan. Loan and is permitted to use the proceeds of the Term Loan solely for its business operations. The Term Loan is secured by a security interest in certain of the Company’s and its certain subsidiaries’ current and future tangible and intangible assets, inventory, chattel paper, accounts, equipment and general intangibles and a pledge of the equity of the direct and indirect subsidiaries of the Company. Specifically, the Term Loan is secured by the building currently used by ALT in East Lyme, CT. As of September 30, 2023 March 31, 2024, the Company was in compliance with all financial and negative covenants. As of September 30, 2023, the The outstanding balance on of the Term Loan as of March 31, 2024 was $6.6 6.0 million, of which $1.2 million was classified as "current" and $5.4 4.8 million was classified as "non-current."

Note 11 – Income Taxes

As of September 30, 2023 At March 31, 2024, the Company had has aggregate tax federal net operating loss carry forwards of approximately $64.8 50.0 million ($61.5 million of unrestricted net operating tax losses and $3.3 million of restricted net operating tax losses). Substantially all of the million. These net operating loss carry forwards begin to expire between in 2024 and 2037.. The Company’s utilization of restricted net operating tax loss carry forwards against future income for tax purposes is restricted pursuant to the “change in ownership” rules in Section 382 of the Internal Revenue Code.These rules, in general, provide that an ownership change occurs when the percentage shareholdings of 5% direct or indirect stockholders of a loss corporation have, in aggregate, increased by more than 50 percentage points during the immediately preceding three years.

The reported tax expense varies from the amount that would be provided by applying the statutory U.S. Federal income tax rate to the income from operations before taxes primarily as a result of the impact of state income taxes.

The Company records net deferred tax assets to the extent that it believes such assets will more likely than not be realized. As a result of cumulative losses and uncertainty with respect to future taxable income, the Company has provided a partial valuation allowance against its net deferred tax assets. As of both March 31, 2024 and December 31, 2023, the Company's valuation allowance against its deferred tax assets as of September 30, 2023 and December 31, 2022. was approximately $2.2 million.

Note 12 – Related Party Transactions

As part of the operations of NLEX, the Company leases office space in Edwardsville, IL that is owned by the President of NLEX and a member of the board of directors of the Company, David Ludwig. The total amount paid to the related party for both nine month three-month periods ended September 30, 2023 March 31, 2024 and 2022 2023 was approximately $84,000 and $83,000 28,000, respectively, and is included in selling, general and administrative expenses in the unaudited condensed consolidated statements of income.

20 18

Note 13 – Segment Information

The following table sets forth certain financial information for the Company's reportable segments (in thousands):

	Three Months Ended September 30,	Nine Months Ended September 30,	Three Months Ended March 31,

	2023	2022	2023	2022	2024	2023
Industrial Assets Division:						
Auction and Liquidation	$ 1,099	$ 2,393	$ 3,282	$ 6,241	$ 796	$ 1,468
Refurbishment & Resale	1,001	665	2,838	1,006	16	1,101
Total divisional operating income	2,100	3,058	6,120	7,247	812	2,569
Financial Assets Division:						
Brokerage	2,055	1,246	6,217	2,582	2,067	2,045
Specialty Lending	(206)	320	1,093	898	865	477
Total divisional operating income	1,849	1,566	7,310	3,480	2,932	2,522
Corporate operating expense & other income	(1,180)	(1,150)	(3,666)	(2,754)	(1,186)	(1,197)
Consolidated operating income	$ 2,769	$ 3,474	$ 9,764	$ 7,973	$ 2,558	$ 3,894

21 19

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis should be read in conjunction with the information contained in the unaudited condensed consolidated interim financial statements of Heritage Global Inc. (together with its consolidated subsidiaries, “we”, “us”, “our” or the “Company”) and the related notes thereto for the three three-month period ended March 31, 2024 and nine month periods ended September 30, 2023 and 2022, 2023, appearing elsewhere herein, and in conjunction with the Management’s Discussion and Analysis of Financial Condition and Results of Operations set forth in the Company’s Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023, filed with the Securities and Exchange Commission (“SEC”) on March 24, 2023 March 14, 2024 (the “Form 10-K”).

Forward Looking Information

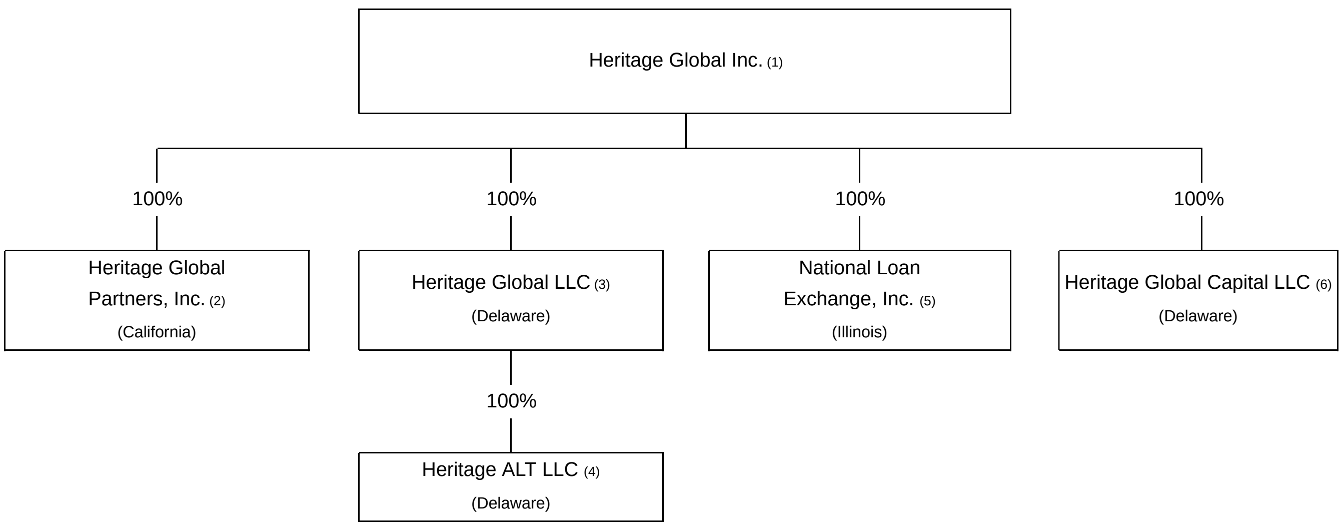
This Quarterly Report on Form 10-Q (the “Report”) contains certain “forward-looking statements” as defined by the Private Securities Litigation Reform Act of 1995 that are based on management’s exercise of business judgment as well as assumptions made by, and information currently available to, management. When used in this document, the words “may,” "will,” “anticipate,” “believe,” “estimate,” “expect,” “intend,” and words of similar import, are intended to identify any forward-looking statements. You should not place undue reliance on these forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. These statements are subject to certain risks, uncertainties, and assumptions, including the important factors noted under Item 1A “Risk Factors” in our Form 10-K, and as noted below. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, our actual results could differ materially from those anticipated in these forward-looking statements. We undertake no obligation, and do not intend, to update, revise or otherwise publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date hereof, or to reflect the occurrence of any unanticipated events. Although we believe that our expectations are based on reasonable assumptions, we can give no assurance that our expectations will materialize.

Overview, History and Recent Developments

Heritage Global Inc. was incorporated in Florida in 1983 under the name “MedCross, Inc.” Our name was changed to “I-Link Incorporated” in 1997, to “Acceris Communications Inc.” in 2003, to “C2 Global Technologies Inc.” in 2005, to “Counsel RB Capital Inc.” in 2011, and to Heritage Global Inc. in 2013. The most recent name change more closely identifies HG with its auction and specialty lending business lines.

Our corporate headquarters are located at 12625 High Bluff Drive, Suite 305, San Diego, CA 92130. Our telephone number is (858) 847-0659 and our corporate website is *www.hginc.com*. Information contained on our website is not incorporated by reference into this Form 10-Q.

The organization chart below outlines our basic domestic corporate structure as of September 30, 2023 March 31, 2024.



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(1) Registrant.

(2) Auction and Liquidation.

(3) Holding Company.

(4) Refurbishment and Resale.

(5) Brokerage.

(6) Specialty Lending.

Specialty Lending - Concentration and credit risk

As of September 30, 2023 March 31, 2024, we held a gross balance of investments in notes receivable of $37.6 million $37.3 million, recorded in both notes receivable and equity method investments, and consisting of one borrower’s note balance of approximately $21.8 million $23.4 million, or 58% 63% as of September 30, 2023 March 31, 2024, down from 73% as compared to 62% as of June 30, 2023 December 31, 2023. We do not intend to hold highly concentrated balances due from one borrower as part of its long-term strategy but may, in the short term, have concentration risk on our path to an established and diversified portfolio.

We do not evaluate concentration risk solely based on balance due from specific borrowers, but also consider the number of portfolio purchases, type of charged off accounts within the portfolio, and the seller of the portfolio when determining the overall risk. Of the balance due from one borrower of $21.8 million $23.4 million, there are 31 11 distinct loan agreements, the underlying portfolio of accounts are diversified throughout FinTech, installment loans and credit card accounts, and further diversified amongst six separate sellers of these charged off portfolios.

We mitigate this concentration risk as follows. We require, by requiring, and monitor, monitoring, security from each borrower consisting of their charged off and nonperforming receivable portfolios. We engage in a due diligence process that leverages our valuation expertise. expertise, knowledge and experience in the underlying nonperforming receivable portfolios marketplace. In the event of default, we are entitled to call the unpaid interest and principal balances and receive all net collections directly. We may also recover our investment by engaging a third party to collect on the underlying charged off or nonperforming receivable portfolio or the underlying portfolio can be sold through our Brokerage segment. In certain cases, our recovery options may be subject to concurrence of the originator or other prior holder of the assets.

Currently, declining collections are being experienced industry-wide and are expected to continue in the short-term. While most of our borrowers are still tracking to their collection forecasts, our largest borrower has requested extended repayment terms due to declining collections. We are working with the borrower and our partners to finalize amended loan agreements. An amended loan agreement would allow the borrower to meet their minimum required payments over a longer repayment period with a higher interest rate. In the event that the borrower defaults on a loan, we expect to recoup the majority of principal and interest owed, albeit over a longer period and with more uncertainty than an amended loan agreement. Due to the inherent risks and uncertainty of this situation, we have increased our reserve for credit losses by $0.9 million to $1.4 million, or 3.8%. From inception of the specialty lending program through September 30, 2023 March 31, 2024, the Company has we have incurred no actual credit losses.

21

Industry and Competition

23

Our business consists primarily of the auction, appraisal, refurbishment and asset advisory services provided by our Industrial Assets Division division and the charged-off receivable brokerage and specialty financing services provided by our Financial Assets Division, division, each of which is further described below. Our business also includes the purchase and sale, including at auction, of industrial machinery and equipment, real estate, inventories, charged-off receivable and distressed debt. The market for all of these services and assets is highly fragmented. To acquire auction or appraisal contracts, or assets for resale, we compete with other liquidators, auction companies, dealers and brokers. We also compete with them for potential purchasers and lenders. Some competitors have significantly greater financial and marketing resources and name recognition.

We believe that our business is positioned to grow in all economic cycles. As the economy encounters situations of recession, flattening yield curves and rising credit costs, our business may experience wider margins on principal asset sales, a favorable lending cycle for charged-off and nonperforming asset portfolios, higher volumes of nonperforming assets and building surplus inventories and bankruptcies. In times of economic growth, our business has demonstrated its ability to experience growth based on our competitive advantages in the industry, including our domain expertise related to deal sourcing and execution capabilities, our diversification of integrated service platforms and our experience across underserved markets. We intend to continue to leverage our competitive advantages to grow within each segment and across platforms through increasing synergies, maintaining high incremental margins, improving earnings predictability, strengthening financial metrics reflected on our balance sheet and managing expenses.

Our business strategy in the Specialty Lending and Auction and Liquidation segments includes the option of partnering with one or more additional purchasers or lenders, pursuant to a partnership, joint venture or limited liability company agreement (collectively, “Joint Ventures”). These Joint Ventures give us access to more opportunities, by helping help to mitigate some of the competition from the market’s larger participants, and by contributing contribute to our objective to be the leading resource for clients requiring financial and industrial asset solutions.

Our Competitive Strengths

We believe we have attributes that differentiate us from our competitors and that provide us with significant competitive advantages. Our key competitive strengths are described below.

Differentiated business model - We believe we have diversified business lines serving the financial and industrial asset liquidation market. We have multiple revenue streams in including our brokerage, and principal based auction services, refurbishment and resale, advisory services and secured lending services. Further, our business is event-driven and we have repeat, forward-flow contracts in place with industry leading customers. We expect to drive growth in our revenue streams by taking different roles, and by using partners as needed.

Compelling macro growth drivers - Historically, recessions drive an increased supply of surplus assets and an increased demand for liquidation services, which we believe we are well-positioned to provide. Further, consumer lending and resulting charge-offs are expected to continue their upward trend to meet, and possibly exceed, pre-pandemic levels, which we believe will drive an increased supply of non-performing consumer loans. Additionally, we believe an active market for mergers and acquisitions in manufacturing industries drives demand for industrial asset liquidations and our services. The market in which we operate is highly fragmented, presenting a continued opportunity for the Company to increase market share and drive consolidation.

High return on invested capital - We believe we have an opportunity to drive improved auction economics by serving more frequently in the role of principal rather than the lower margin role of broker. Further, we believe we have a strong growth opportunity in providing secured loans to our financial asset debt buyers, a service we are providing through HGC.

Strong management team - We have built an experienced executive-level management team with deep domain expertise. Our President and Chief Executive Officer, Ross Dove, is a third-generation auctioneer and a pioneering innovator in applying technology to the asset liquidation industry. Mr. Dove began his career in the auction business over thirty forty years ago, beginning with a small family-owned auction house and helping to expand it into a global firm, DoveBid, which was sold to a third party in 2008. In addition, our senior management team has deep domain expertise in both industrial asset and financial asset transactions. On September 17, 2020, we entered into an Employment Agreement with Kirk Dove, the former President and Chief Operating Officer of the Company. Upon his resignation, Kirk Dove continued his employment with us in an advisory capacity, and is expected to do so until December 31, 2024. Also, during 2020, Nick Dove was appointed as President, Industrial Assets Division, and David Ludwig was appointed as President, Financial Assets Division. Nick Dove previously served as Executive Vice President of Sales of Heritage Global Partners since August 2017. David Ludwig previously served as President of NLEX, a wholly owned subsidiary of the Company, and has served in such capacity since the Company acquired NLEX in 2014.

Financial Assets Division

Our Financial Assets Division provides services to issuers of consumer credit that are looking to monetize nonperforming and charged-off loans — loans that creditors have written off as uncollectable. Nonperforming and charged-off loans typically originate from banks that issue unsecured consumer credit.

Brokerage Segment

Through NLEX, we act as an advisor for sales of charged-off and nonperforming asset portfolios via an electronic auction exchange platform for banks the U.S. government, and other debt holders throughout the United States and Canada. Since the 1980s, NLEX has sold over $150 billion $200 billion face value of performing, nonperforming and charged-off assets. NLEX sales are concentrated in online, automotive, consumer credit card, student secured and unsecured consumer and business loan and real estate charge-offs. The typical credit we broker sells at a deep discount to face value, and we typically receive a commission for these services from both buyers and sellers. We have existing relationships with high quality, top- tier top-tier and mid-tier debt buyers. In addition to its banking relationships, NLEX is in the process of expanding into the has continued to be opportunistic as new lending facilities, such as FinTech, lenders, peer-to-peer lending and more recently Buy Now Pay Later lenders have expanded the availability of consumer credit. Together with growing volume in this industry, due to large increases in delinquency and charge-off rates, we anticipate significant growth opportunities in our brokerage segment as these sectors where evolve. Given many of our clients' limited resources in this space, we believe have also implemented post-sale support, further entrenching NLEX has opportunity for significant growth. In addition, we plan to add post-sale initiatives, making with our services more attractive to our customers dedicated clients as compared to our well as differentiating us from competitors.

Specialty Lending Segment

Through HGC, we provide specialty financing solutions to investors in charged-off and nonperforming asset portfolios. Since the inception of HGC in 2019, we have issued $142 million $151.7 million in total loans to investors by both self- funded loans and in partnership with senior lenders. Our portion of the total loans funded since inception is $59.5 million $65.2 million. Our income from secured lending consists of upfront fees, interest income, monthly monitoring fees and backend profit share. In general, we expect to earn an annual rate of return on our share of notes receivable outstanding of approximately 20% or more based on established terms of the loans funded and performance of collections. As of September 30, 2023 March 31, 2024, our total balance related to investments in loans to buyers of charged-off and nonperforming receivable portfolios was $35.9 million, of which $20.6 million $17.2 million is classified as Notes Receivable and $15.3 million $18.7 million is classified as Equity Method Investments.

Our management team has decades of domain expertise with the ability to leverage extensive funding activity and widespread industry relationships. We believe we have the opportunity for growth through increased penetration of the underserved market of mid-tier buyers of charged-off receivables, providing more economic financing options and a greater variety of funding solutions to our customers.

Industrial Assets Division

Our Industrial Assets Division advises enterprise and financial customers on the sale of industrial assets, mostly from surplus and sometimes distressed circumstances while acting as an agent, guarantor or principal in the sale.

Auction and Liquidation Segment

Through HGP, we offer a global full-service auction, appraisal and asset advisory firm, including the acquisition of turnkey manufacturing facilities and used industrial machinery and equipment. The fees for our services typically range from 15%–50%, depending on our role and the transaction. This division predominantly targets sellers of surplus or distressed “inside the building” assets. Our buyers consist of both end-users and dealers.

Refurbishment & Resale Segment

Through ALT, we have specialized our offering in the biotech and pharma sectors, which have been key verticals over the past decade. ALT focuses on refurbishing and reselling laboratory equipment.

Our management team has decades of domain expertise with the ability to leverage extensive industry relationships, real time access to databases of buyers and sales, as well as a deep understanding of the underlying asset value across the more than 25 industrial sectors in which we operate. We believe we have the opportunity for growth in our auction services through our ability to secure ongoing contracts with large multinational sellers, to be a first mover in emerging sectors, and to gain market share in sectors in which we are currently less active. Our extensive network and ability to find and source new opportunities are key factors for expansion. We believe we have the opportunity for growth in our valuation services through the addition of incremental bank-approved vendor lists, geographic expansion and through deeper penetration with our existing bank relationships.

Government Regulation

We are subject to federal, state and local consumer protection laws, including laws protecting the privacy of customer non-public information and regulations prohibiting unfair and deceptive trade practices. Many jurisdictions also regulate “auctions” and “auctioneers” and may regulate online auction services. These consumer protection laws and regulations could result in substantial compliance costs and could interfere with the conduct of our business.

Legislation in the United States has increased public companies’ regulatory and compliance costs as well as the scope and cost of work provided by independent registered public accountants and legal advisors. As regulatory and compliance guidelines continue to evolve, we may incur additional costs in the future, which may or may not be material, in order to comply with legislative requirements or rules, pronouncements and guidelines by regulatory bodies.

Critical Accounting Policies and Estimates

Management’s Discussion and Analysis of Financial Condition and Results of Operations references our unaudited condensed consolidated interim financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). This requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Management bases its estimates and judgments on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

Significant estimates include the assessment of collectability of revenue recognized and the valuation of accounts receivable and notes receivable, inventory, investments, goodwill and intangible assets, liabilities, deferred income tax assets and liabilities including projecting future years’ taxable income, and stock-based compensation. These estimates have the potential to significantly impact our consolidated financial statements, either because of the significance of the financial statement item to which they relate, or because they require judgment and estimation due to the uncertainty involved in measuring, at a specific point in time, events that are continuous in nature.

We have no off-balance sheet arrangements.

We have not paid any dividends, and do not expect to pay any dividends in the future.

The critical accounting policies used in the preparation of our audited consolidated financial statements are discussed in our Form 10-K. We adopted a change in accounting policy effective January 1, 2023, as fully described in *Note 2 – Summary of Significant Accounting Policies, Recently Adopted Accounting Pronouncement,* of the financial statements attached to this Form 10-Q. This change, referred to as “ASC 326,” was required by the Financial Accounting Standards Board. Prior periods were not restated, and the cumulative effect to periods prior to January 1, 2023 were recorded to our condensed consolidated balance sheets as of that date. Prospectively, the change will not There have a material effect on our results of operations. Other than this required change, there were been no changes to our accounting these policies during in the nine three months ended September 30, 2023 March 31, 2024.

Management’s Discussion of Financial Condition

Liquidity and Capital Resources

Liquidity

We had working capital of $13.8 million $15.0 million and $7.7 million $11.6 million as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively.

Our current assets as of September 30, 2023 March 31, 2024 increased to $33.9 million $28.9 million compared to $23.9 million $26.3 million as of December 31, 2022 December 31, 2023. This change was primarily due to an increase in the current portion of notes receivable of $5.8 million, an increase in cash of $2.9 million $3.3 million, partially offset by a decrease in inventory of $0.4 million and an increase a decrease in accounts receivable of $1.9 million $0.3 million. Our current liabilities as of September 30, 2023 increased March 31, 2024 decreased to $20.1 million $13.9 million compared to $16.2 million $14.7 million as of December 31, 2022 December 31, 2023. The most significant change was a decrease to accounts payable and accrued liabilities of $2.6 million, partially offset by an increase of $7.0 million $1.8 million in our payables to sellers due to the timing of certain asset liquidation settlements, offset by a decrease in accounts payable and accrued liabilities of $3.1 million. settlements.

During the nine three months ended September 30, 2023 March 31, 2024, our primary source of cash was cash on hand proceeds from the Term Loan and cash provided by operating activities. Cash disbursements during the nine three months ended September 30, 2023 March 31, 2024 consisted primarily of investments in notes receivable net of cash received on transfer of notes to partners of $18.8 million, equity method investments of $6.5 million, repayment on our 2021 Credit Facility of $7.3 million, repayment on our ALT Note of $0.4 million, repayment on our Term Loan of $0.4 million, $2.3 million and payment of operating expenses and settlement of auction liabilities. $2.7 million.

We believe we can fund our operations and our debt service obligations for at least 12 months from the date of filing this quarterly report and beyond through a combination of working capital, cash flows from our on-going operations and accessing financing from our existing line of credit.

Our indebtedness consists of a promissory note dated August 23, 2021 (the “ALT Note”) issued in the amount of $2.0 million as part of the aggregate purchase price paid to acquire certain assets and liabilities of American Laboratory Trading, any amounts borrowed under our 2021 Credit Facility, and the Term Loan. The terms of the ALT Note require us to pay off the Note in 48 equal installments of approximately $44,000 with an interest rate of 3% per annum and a maturity date of August 23, 2025. As of September 30, 2023 March 31, 2024, we had an outstanding balance of $1.0 million $0.8 million on the ALT Note.

On May 26, 2023, the Company entered into a Loan Modification Agreement and Reaffirmation of Loan (the “Modification Agreement”), by and between the Company and C3 Bank. The Modification Agreement modifies and reaffirms the 2021 Credit Facility to, among other things, extend the maturity date, modify the applicable interest rate, and further modify the loan covenants. The maturity date was modified to October 27, 2024. We are permitted to use the proceeds of the loan solely for our business operations. As of September 30, 2023 March 31, 2024, we had an there was no outstanding balance of $1.6 million on the 2021 Credit Facility.

24

On May 26, 2023, the Company entered into a promissory note, a business loan agreement and commercial security agreement (collectively, the “2023 Credit Facility”) with C3 Bank. The 2023 Credit Facility provides for a new $7.0 million term loan (the "Term Loan"). The Company is permitted to use the proceeds of the Term Loan solely for its business operations. The maturity date of the Term Loan is April 27, 2028. The Term Loan sets the interest rate spread and interest rate floor to accrue at a variable interest rate, which is based on the rate of interest last quoted by The Wall Street Journal as the “prime rate,” plus a margin of 0.25% and a floor of no less than 6.5%. The Term Loan requires we pay monthly installments over a 5-year term with adjustments for changes in the variable interest rate. As of September 30, 2023 March 31, 2024, we had an outstanding balance of $6.6 million $6.0 million on the Term Loan.

Capital Resources

As of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, we had stockholders’ equity of $56.4 million $63.0 million and $48.3 million $61.1 million, respectively.

We determine our future capital and operating requirements based upon our current and projected operating performance and contractual commitments. We expect to be able to finance our future operations through a combination of working capital, future net cash flows from operating activities, our 2021 Credit Facility and Term Loan. Our contractual requirements are limited to the outstanding debt and lease commitments with related and unrelated parties. Capital requirements are generally limited to our purchases of surplus and distressed assets and our investment activity under our Specialty Lending segment. We believe that our current capital resources, including available borrowing capacity from our 2021 Credit Facility and Term Loan, are sufficient for these requirements. In the event additional capital is needed, we believe we can obtain additional debt financing through capital partners.

27

Cash Position and Cash Flows

Cash and cash equivalents as of September 30, 2023 March 31, 2024 were $15.6 million as compared to $12.7 million $12.3 million as of December 31, 2022 December 31, 2023, an increase of approximately $2.9 million $3.3 million.

Cash Provided By From Operating Activities

Cash provided by operations was $12.6 million $1.7 million during the nine three months ended September 30, 2023 March 31, 2024 as compared to $2.6 million $8.9 million during the same period in 2022. 2023. The approximate $10.0 million $7.2 million change was primarily attributable to a change decrease in operating assets and liabilities of $8.0 million $5.4 million and a decrease of $1.8 million in net income adjusted for noncash items during the nine three months ended September 30, 2023 March 31, 2024 as compared to the same period in 2022. The amount was offset by changes in operating assets and liabilities of $2.0 million during the nine months ended September 30, 2023 as compared to the same period in 2022. 2023.

The changes in operating assets and liabilities during the nine three months ended September 30, 2023 March 31, 2024 as compared to the same period in 2022 2023 are primarily due to the nature of our operations. We earn revenue from discrete asset liquidation deals that vary considerably with respect to their magnitude and timing, and that can consist of fees, commissions, asset sale proceeds, or a combination thereof. The operating assets and liabilities associated with these deals are, therefore, subject to the same variability and can be quite different at the end of any given period.

Cash (Used In) Provided From Investing Activities

Cash provided by Investing Activities investing activities during the three months ended March 31, 2024 was $2.1 million compared to cash used in investing activities of $6.8 million during the same period in 2023.

Cash provided by investing activities during the three months ended March 31, 2024 consisted primarily of payments received on notes receivable of $2.5 million and return of investment and cash distributions received from equity method investments of $2.1 million. Cash provided by investing activities during the three months ended March 31, 2024 was offset by cash used in investing activities primarily of investments in notes receivable of $2.3 million and equity method investments of $0.2 million.

Cash used in investing activities during the nine three months ended September 30, 2023 was $14.5 million compared to cash provided by investing activities of $3.9 million during the same period in 2022.

Cash used in investing activities during the nine months ended September 30, 2023 March 31, 2023 consisted primarily in investment in notes receivable of $27.6 million $13.2 million and equity method investments of $6.5 million $0.5 million, related entirely to specialty lending activity within our Financial Assets Division. Cash used in investing activities during the nine three months ended September 30, 2023 March 31, 2023 was offset by cash provided by investing activities primarily of cash received on transfer of notes receivable to partners of $8.9 million $4.6 million, payments received on notes receivable of $6.1 million $1.1 million as well as return of investment and cash distributions received from equity method investments of $4.8 million $1.4 million.

Cash provided by investing activities during the nine months ended September 30, 2022 consisted primarily of payments received on notes receivable of $2.4 million as well as return of investment and cash distributions received from equity method investments of $10.2 million in the aggregate, which included $1.7 million related to specialty lending activity within our Financial Assets Division, $5.9 million from the sale of the remaining real estate assets of CPFH LLC, the joint venture, located in Huntsville, Alabama, and $2.6 million from the sales of real estate and machinery and equipment assets of KNFH LLC. Cash provided by investing activities during the nine months ended September 30, 2022 was offset by cash used in investment in equity method investments of $8.1 million, of which $6.6 million related to specialty lending activity within our Financial Assets Division and $1.5 million cash used in our Industrial Assets Division directly related to the acquisition of two pharmaceutical plants, formerly of Nesher Pharmaceuticals.

Cash Provided By (Used In) From Financing Activities

Cash used in financing activities was approximately $0.5 million during the three months ended March 31, 2024 compared to cash provided by financing activities was approximately $4.9 million of $0.9 million during the nine three months ended September 30, 2023 compared to cash used in financing activities of $2.6 million during the nine months ended September 30, 2022 March 31, 2023. Financing activities during the nine three months ended September 30, 2023 March 31, 2024 consisted primarily of $13.0 million in proceeds from draws on our 2021 Credit Facility and our Term Loan, offset by $7.3 million $0.3 million in repayments to our 2021 Credit Facility, $0.4 million in repayments to of our Term Loan and $0.4 million $0.1 million in repayments to our ALT Note. Financing activities during the nine three months ended September 30, 2022 March 31, 2023 consisted primarily of a $1.9 million $3.4 million in proceeds from draws on our 2021 Credit Facility, offset by $2.3 million repayment to our 2021 Credit Facility and $0.4 million $0.1 million in repayments to our ALT Note.

Contractual Obligations

Our significant contractual obligations are our third party loans, client and partner asset liquidation settlement payments and lease obligations. The loan and lease obligations are fully described in the notes to the consolidated financial statements included in our Form 10-K.

Management's Discussion of Results of Operations

The following table sets out the Company's condensed consolidated results of operations for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023 (in thousands).

Three Months Ended September 30,	Change	Nine Months Ended September 30,	Change	Three Months Ended March 31,	Change

	2023	2022	Dollars	Percent	2023	2022	Dollars	Percent	2024	2023	Dollars	Percent
Revenues:												
Services revenue	$ 9,985	$ 7,349	2,636	36%	$ 30,040	$ 16,112	$ 13,928	86%	$ 8,983	$ 10,245	(1,262)	(12)%
Asset sales	5,566	5,312	254	5%	15,221	16,971	(1,750)	(10)%	3,178	6,367	(3,189)	(50)%
Total revenues	15,551	12,661	2,890	23%	45,261	33,083	12,178	37%	12,161	16,612	(4,451)	(27)%
Operating costs and expenses:												
Cost of services revenue	2,423	2,051	372	18%	6,570	3,715	2,855	77%	1,480	2,340	(860)	(37)%
Cost of asset sales	3,413	3,015	398	13%	9,683	12,048	(2,365)	(20)%	2,411	4,335	(1,924)	(44)%
Selling, general and administrative	6,806	5,693	1,113	20%	19,546	14,907	4,639	31%	6,358	6,300	58	1%
Depreciation and amortization	132	134	(2)	(1)%	373	400	(27)	(7)%	141	120	21	18%
Total operating costs and expenses	12,774	10,893	1,881	17%	36,172	31,070	5,102	16%	10,390	13,095	(2,705)	(21)%
Earnings of equity method investments	(8)	1,706	(1,714)	(100)%	675	5,960	(5,285)	(89)%	787	377	410	109%

Operating income	2,769	3,474	(705)	(20)%	9,764	7,973	1,791	22%	2,558	3,894	(1,336)	(34)%
Interest expense, net	(56)	(21)	(35)	167%	(225)	(96)	(129)	134%	(92)	(68)	(24)	35%
Income before income tax expense	2,713	3,453	(740)	(21)%	9,539	7,877	1,662	21%	2,466	3,826	(1,360)	(36)%
Income tax expense	736	1,153	(417)	(36)%	1,954	2,354	(400)	17%	667	997	(330)	(33)%
Net income	$ 1,977	$ 2,300	$ (323)	(14)%	$ 7,585	$ 5,523	$ 2,062	37%	$ 1,799	$ 2,829	$ (1,030)	(36)%

Our revenue has several components: (1) traditional fee based asset disposition services, such as commissions from on-line and webcast auctions, liquidations and negotiated sales, and commissions from the NLEX charged-off receivables business, (2) the acquisition and subsequent disposition of distressed and surplus assets, including industrial machinery and equipment and real estate, and (3) fees and interest earned for appraisal, management advisory services and specialty lending services.

We report segment information based on the "management" approach. The management approach designates the internal reporting used by management for making decisions and assessing performance as the source of our reportable segments. We manage our business primarily on differentiated revenue streams for services offered. Our reportable segments consist of the Auction and Liquidation segment, Refurbishment & Resale segment, Brokerage segment, and Specialty Lending segment. Our Auction and Liquidation segment, through HGP, operates as a global full-service auction, appraisal and asset advisory firm, including the acquisition of turnkey manufacturing facilities and used industrial machinery and equipment. Our Refurbishment & Resale segment, through ALT, acquires, refurbishes and supplies specialized laboratory equipment. Our Brokerage segment, through NLEX, brokers charged-off receivables in the U.S. and Canada on behalf of financial institutions. Our Specialty Lending segment, through HGC, provides specialty financing solutions to investors in charged-off and nonperforming asset portfolios.

We evaluate the performance of our reportable segments based primarily on operating income. Notwithstanding the foregoing, the reported segment operating income for ALT and HGC represents incremental costs for managing these segments as part of their sister segments (HGP for ALT and NLEX for HGC). As such, the reported operating income for ALT and HGC does not represent their true standalone contribution, as we do not attempt to allocate existing fixed divisional overhead costs of the sister divisions to the newer segments. Similarly, corporate overhead cost is not allocated to the operating divisions for management reporting purposes. Further, we do not utilize segmented asset information to evaluate the performance of our reportable segments and do not include intercompany transfers between segments for management reporting purposes.

The following table sets forth operating income for the Company's reportable segments (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended March 31,	
	2023	2022	2023	2022	2024	2023
Industrial Assets Division:						
Auction and Liquidation	$ 1,099	$ 2,393	$ 3,282	$ 6,241	$ 796	$ 1,468

Refurbishment & Resale	1,001	665	2,838	1,006	16	1,101
Total divisional operating income	2,100	3,058	6,120	7,247	812	2,569
Financial Assets Division:						
Brokerage	2,055	1,246	6,217	2,582	2,067	2,045
Specialty Lending	(206)	320	1,093	898	865	477
Total divisional operating income	1,849	1,566	7,310	3,480	2,932	2,522
Corporate operating expense & other income	(1,180)	(1,150)	(3,666)	(2,754)	(1,186)	(1,197)
Consolidated operating income	$ 2,769	$ 3,474	$ 9,764	$ 7,973	$ 2,558	$ 3,894

Three-Month Period Ended September 30, 2023 March 31, 2024 Compared to Three-Month Period Ended September 30, 2022 March 31, 2023

Revenues and cost of revenues – Revenues were $15.6 million $12.2 million during the three months ended September 30, 2023 March 31, 2024 compared to $12.7 million $16.6 million during the same period in 2022. 2023. Costs of services revenue and asset sales were $5.8 million $3.9 million during the three months ended September 30, 2023 March 31, 2024 compared to $5.1 million $6.7 million during the same period in 2022. 2023. The gross profit of these items was $9.7 million $8.3 million during the three months ended September 30, 2023 March 31, 2024 compared to $7.6 million $9.9 million during the same period in 2022, an increase 2023, a decrease of approximately $2.1 million $1.6 million, or approximately 28% 16%. The increased decrease in gross profit in the third first quarter of 2024 compared to the first quarter of 2023 reflects the substantial increase in service revenue due to strong performance in the Financial Assets Division, as well as the normal changes in the timing and magnitude of asset liquidation transactions.

30

Selling, general and administrative expense – Selling, general and administrative expense was $6.8 million during the three months ended September 30, 2023 compared to $5.7 million during the same period in 2022.

Significant components of selling, general and administrative expense for the three months ended September 30, 2023 and September 30, 2022 are shown below (in thousands):

	Three Months Ended September 30,		
	2023	**2022**	**% change**
Compensation			
Auction and liquidation	$ 1,754	$ 1,765	(1)%
Refurbishment and resale	592	389	52%
Brokerage	1,193	1,255	(5)%
Specialty lending	282	138	104%
Corporate and other	627	664	(6)%
Stock-based compensation	175	170	3%
Consulting	64	32	100%
Board of Directors fees	90	89	1%
Accounting, tax and legal professional fees	442	296	49%
Insurance	133	119	12%
Occupancy	313	291	8%
Travel and entertainment	182	156	17%
Advertising and promotion	150	89	69%
Information technology support	96	103	(7)%
Provision for credit losses	545	—	100%
Other	168	137	23%
Total selling, general & administrative expense	$ 6,806	$ 5,693	20%

As compared to the third quarter of 2022, there was an increase in selling, general and administrative expense during the third quarter of 2023 is primarily due to increased compensation expense as a result increased headcount and significant one-time principal auction transaction in our provision for credit losses.

Depreciation and amortization expense – Depreciation and amortization expense was $0.1 million during the three months ended September 30, 2023 and the same period in 2022, which consisted primarily of amortization expense related to intangible assets.

Nine-Month Period Ended September 30, 2023 Compared to Nine-Month Period Ended September 30, 2022

Revenues and cost of revenues – Revenues were $45.3 million during the nine months ended September 30, 2023 compared to $33.1 million during the same period in 2022. Costs of services revenue and asset sales were $16.3 million during the nine months ended September 30, 2023 compared to $15.8 million during the same period in 2022. The gross profit of these items was $29.0 million during the nine months ended September 30, 2023 compared to $17.3 million during the same period in 2022, an increase of approximately $11.7 million, or approximately 68%. The increased gross profit in 2023 reflects the substantial increase in service revenue due to strong performance Industrial Asset Division in the Financial Assets Division, first quarter of 2023, as well as the normal changes in the timing and magnitude of asset liquidation transactions.

Selling, general and administrative expense – Selling, general and administrative expense was $19.5 million $6.4 million during the nine three months ended September 30, 2023 March 31, 2024 compared to $14.9 million $6.3 million during the same period in 2022. 2023.

Significant components of selling, general and administrative expense for the nine three months ended September 30, 2023 March 31, 2024 and September 30, 2022 2023 are shown below (in thousands):

	Three Months Ended March 31,		
	2024	2023	% change
Compensation			
Auction and liquidation	$ 1,290	$ 1,443	(11)%
Refurbishment and resale	595	505	18%
Brokerage	1,431	1,770	(19)%
Specialty lending	515	210	145%
Corporate and other	648	623	4%
Stock-based compensation	228	179	27%
Board of Directors fees	78	72	8%
Accounting, tax and legal professional fees	503	339	48%
Insurance	156	131	19%
Occupancy	309	318	(3)%
Travel and entertainment	179	278	(36)%
Advertising and promotion	155	115	35%
Information technology support	136	93	46%
Provision for credit losses	(12)	102	(112)%
Other	147	122	20%
Total selling, general & administrative expense	$ 6,358	$ 6,300	1%

	Nine Months Ended September 30,		
	2023	2022	% change
Compensation			
Auction and liquidation	$ 4,740	$ 4,618	3%
Refurbishment and resale	1,638	1,154	42%
Brokerage	4,725	3,129	51%
Specialty lending	773	425	82%
Corporate and other	1,780	1,405	27%
Stock-based compensation	582	384	52%

Consulting	92	72	28%
Board of Directors fees	244	235	4%
Accounting, tax and legal professional fees	1,296	895	45%
Insurance	400	342	17%
Occupancy	950	797	19%
Travel and entertainment	627	521	20%
Advertising and promotion	404	310	30%
Information technology support	299	290	3%
Provision for credit losses	632	—	100%
Other	364	330	10%
Total selling, general & administrative expense	$ 19,546	$ 14,907	31%

As compared to Selling, general and administrative expense during the nine months ended September 30, 2022, there was an increase in first quarter of 2024 were generally consistent with selling, general and administrative expense during the nine months ended September 30, 2023 primarily due to increased compensation expense as a result first quarter of our improved financial performance across our operating segments and increased headcount, as well as our provision for credit losses. 2023.

Depreciation and amortization expense – Depreciation and amortization expense was $0.4 million and $0.4 million $0.1 million during the nine three months ended September 30, 2023 March 31, 2024 and September 30, 2022, respectively, the same period in 2023, which consisted primarily of amortization expense related to intangible assets.

Key Performance Indicators

We monitor a number of financial and non-financial measures on a regular basis in order to track our underlying operational performance and trends. Other than operating income (a GAAP financial measure as shown in our consolidated statements of income), which we believe is the most important measure of our operational performance and trends, we believe that EBITDA and Adjusted EBITDA (non-GAAP financial measures) are key performance indicators ("KPIs") for our business. These KPIs may not be defined or calculated in the same way as similar KPIs used by other companies.

We prepared our unaudited condensed consolidated financial statements in accordance with GAAP. We define EBITDA as net income plus depreciation and amortization, interest expense, and provision for income taxes. Adjusted EBITDA reflects EBITDA adjusted further to eliminate the effects of stock-based compensation. Management uses EBITDA and Adjusted EBITDA in assessing the Company's results, evaluating the Company's performance and in reaching operating and strategic decisions. Management believes that the presentation of EBITDA and Adjusted EBITDA, when considered together with our GAAP financial statements and the reconciliation to the most directly comparable GAAP financial measure, is useful in providing investors a more complete understanding of the factors and trends affecting the underlying performance of the Company on a historical and ongoing basis. Our use of EBITDA and Adjusted EBITDA is not meant to be, and should not be, considered in isolation or as a substitute for, or superior to, any GAAP financial measure. You should carefully evaluate the financial information below, which reconciles our GAAP reported net income to EBITDA and Adjusted EBITDA for the periods presented (in thousands).

	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended March 31,	
	2023	2022	2023	2022	2024	2023
Net income	$ 1,977	$ 2,300	$ 7,585	$ 5,523	$ 1,799	$ 2,829
Add back:						
Depreciation and amortization	132	134	373	400	141	120
Interest expense, net	56	21	225	96	92	68
Income tax expense	736	1,153	1,954	2,354	667	997
EBITDA	2,901	3,608	10,137	8,373	2,699	4,014
Management add back:						
Stock based compensation	175	170	582	384	228	179
Adjusted EBITDA	$ 3,076	$ 3,778	$ 10,719	$ 8,757	$ 2,927	$ 4,193

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

As a Smaller Reporting Company, we are not required to provide the information required by this item.

Item 4. Controls and Procedures.

As of the end of the period covered by this Report, our Chief Executive Officer and Principal Financial Officer (the "Certifying Officers") conducted evaluations of our disclosure controls and procedures. As defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the term "disclosure controls and procedures" means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including the Certifying Officers, to allow timely decisions regarding required disclosure. Based on this evaluation, the Certifying Officers have concluded that our disclosure controls and procedures were effective as of September 30, 2023 March 31, 2024.

Further, there were no changes in our internal control over financial reporting during the nine three months ended September 30, 2023 March 31, 2024 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

There have been no material changes to the legal proceedings discussed in our Form 10-K.

Item 1A. Risk Factors

As a Smaller Reporting Company, we are not required to provide the information required by this item.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None. During the quarter ended March 31, 2024, no director or Section 16 officer of the Company adopted or terminated any Rule 10b5-1 trading arrangements or non-Rule 10b5-1 trading arrangements (in each case, as defined in Item 408(a) of Regulation S-K).

Item 6. Exhibits.

(a) Exhibits

Exhibit No.	Identification of Exhibit

3.1	Amended and Restated Articles of Incorporation (restated for filing purposes only) (filed as Exhibit 3.1 to the Company's Annual Report on Form 10-K filed on March 9, 2020 (File No. 000-17973), and incorporated herein by reference).
3.2	Restated Bylaws, as amended (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on September 30, 2020 (File No. 001-39471), and incorporated herein by reference).
4.1	Warrant Agreement by and between Heritage Global Inc. and Napier Park Industrial Asset Acquisition, LP, effective as of March 19, 2019 (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed on March 25, 2019 (File No. 000-17973), and incorporated herein by reference).
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) as adopted under Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a) as adopted under Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunder duly authorized.

Heritage Global Inc.

Date: November 9, 2023 May 9, 2024

By: /s/ Ross Dove
Ross Dove
Chief Executive Officer

(Principal Executive Officer)

By: /s/ Brian J. Cobb

Brian J. Cobb

Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

36 31

Exhibit 31.1

OFFICER'S CERTIFICATION PURSUANT TO

SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Ross Dove, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Heritage Global Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, res operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that m information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in whi report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reas assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted acco principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disc controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the regis fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over fin reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors a audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affe registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reportin

Date: November 9, 2023 May 9, 2024

By: /s/ Ross Dove

Ross Dove

Chief Executive Officer

(Principal Executive Officer)

Exhibit 31.2

OFFICER'S CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Brian J. Cobb, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Heritage Global Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, res operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that m information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in whi report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reas assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted acco principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disc controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the regis fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over fir reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors a audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely aff registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reportir

Date: November 9, 2023 May 9, 2024

By: /s/ Brian J. Cobb

Brian J. Cobb
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Exhibit 32.1

HERITAGE GLOBAL INC.

OFFICER'S CERTIFICATION
PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

(18 U.S.C. 1350)

The undersigned Ross Dove, duly appointed and incumbent officer of Heritage Global Inc., a Florida corporation (the “Corporation”), in connection with the Corporation’s Quarterly Report on Form 10-Q for the period ended September 30, 2023 March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), does hereby represent, warrant and certify pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as amended, that, to the best of his knowledge:

1. The Report is in full compliance with reporting requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

November May 9, 2023 2024

/s/ Ross Dove

Ross Dove

Chief Executive Officer

(Principal Executive Officer)

Exhibit 32.2

HERITAGE GLOBAL INC.

OFFICER’S CERTIFICATION

PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

(18 U.S.C. 1350)

The undersigned Brian J. Cobb, duly appointed and incumbent officer of Heritage Global Inc., a Florida corporation (the “Corporation”), in connection with the Corporation’s Quarterly Report on Form 10-Q for the period ended September 30, 2023 March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), does hereby represent, warrant and certify pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as amended, that, to the best of his knowledge:

1. The Report is in full compliance with reporting requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

November May 9, 2023 2024

/s/ Brian J. Cobb

Brian J. Cobb

Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

DISCLAIMER

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